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Committee on Ways...

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Part 1

REAL ESTATE MORTGAGE TAXES

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HEARINGS

BEFORE THE

COMMITTEE ON WAYS AND MEANS

HOUSE OF REPRESENTATIVES

ON

H. R. 8080

A BILL TO ENCOURAGE THE BUILDING OF HOMES BY PROVIDING FOR EXEMPTION FROM TAXATION OF THE INCOME OF MORTGAGES ON REAL ESTATE

AND

H. R. 14062

A BILL TO ENCOURAGE THE BUILDING OF HOMES BY PROVIDING FOR EXEMPTION FROM TAXATION OF THE INCOME ON MORTGAGES ON REAL ESTATE

MAY 26, 1920

WASHINGTON
GOVERNMENT PRINTING OFFICE
1920

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COMMITTEE ON WAYS AND MEANS.

HOUSE OF REPRESENTATIVES.

SIXTY-SIXTH CONGRESS, SECOND SESSION.

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MP 21 Apr. 1921

STATEMENT BY WITNESSES.

REAL ESTATE MORTGAGE TAXES.

COMMITTEE ON WAYS AND MEANS,
HOUSE OF REPRESENTATIVES,
Wednesday, May 26, 1920.

The committee met at 10 o'clock a. m., Hon. Joseph W. Fordney (chairman) presiding.

The CHAIRMAN. Gentlemen, we have met this morning for the purpose of hearing some gentlemen on H. R. 8080, introduced by Mr. McLaughlin of Michigan, and H. R. 14062, introduced by Mr. Siegel.

(The bills referred to are as follows:)

[H. R. 8080, Sixty-sixth Congress, first session.]

A BILL To encourage the building of homes by providing for exemption from taxation of the income of mortgages on real estate.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That paragraph (b) of section 213 of the revenue act of 1918 is hereby amended by adding thereto a new subdivision, to read as follows:

"(9) The amount received by an individual as interest on an aggregate principal not to exceed $40,000 of loans secured, under mortgage or otherwise, solely by real estate and bearing interest at not to exceed 5 per cent per annum."

[H. R. 14062, Sixty-sixth Congress, second session.]

A BILL To encourage the building of homes by providing for exemption from taxation of the income on mortgages on real estate.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That paragraph (b) of section 213 of the revenue act of 1918 is hereby amended by adding thereto a new subdivision, to read as follows:

"(9) The amount received by an individual as interest on an aggregate principal not to exceed $40,000 of loans secured, under a mortgage or otherwise, solely by real estate, and upon bonds or other certificates of indebtedness of equal amount secured by or issued against such mortgage or mortgages."

The CHAIRMAN. We will ask the gentlemen in the room to kindly divide the time so that we may condense the statements as much as possible. We want to hear all you have to say about the matter but we want to avoid any repetition in the arguments.

Mr. GARNER. The House convenes at 11 o'clock and we would like to get through within the hour if possible.

Mr. ROWE. Mr. Chairman, Mr. Parish, of New York, is here, and has arranged to take charge of the hearing and call upon the people who are to speak.

The CHAIRMAN. Mr. Parish, we will hear you now.

STATEMENT OF MR. JOHN L. PARISH, SECRETARY ADVISORY COUNCIL OF REAL ESTATE INTERESTS, NEW YORK.

Mr. PARISH. Mr. Chairman, I do not care to speak just now on this subject myself. If I find my friends who are supporting this proposition have not covered the matter accurately and completely and to your satifaction, or if there are any questions left you want

answered in relation to this measure, I shall be very glad to supply that information if I am able, but there is present a better man than I to introduce this subject here, Mr. Chairman, and I am going to call upon Mr. Clarence H. Kelsey, president of the Title Guarantee & Trust Co., of New York, to explain to you the need of the particular assistance and relief that this bill provides.

The CHAIRMAN. We will be glad to hear the gentleman.

STATEMENT OF MR. CLARENCE H. KELSEY, PRESIDENT TITLE GUARANTEE & TRUST CO., NEW YORK.

Mr. KELSEY. I appear also as a member of the Advisory Council of Real Estate Interests and on the relations of the Title Guarantee & Trust Co. to the real estate interests of New York generally. Personally, so far as that company is concerned, it has very little interest in the question excepting in its position between the borrower and the lender, and its desire to bring the lender to the borrower so that construction can go on.

This measure originated in the Merchants' Association of New York. A committee of that association was asked to look into the housing situation, which was very critical in the city of New York a year ago and is still worse now, and get at the reasons for it and suggest a remedy. It was very plain to that committee, as it studied the case, that the first requisite for any building boom, which was very much needed, was money to finance the building boom, and that that money had to come from the lenders, and it was plain to all of us, not only in New York, but throughout the State, that money was running out of the mortgage market instead of running into it; that the exemptions of the Liberty bonds and the municipal bonds were such that those who had large incomes could not afford to hold mortgages and pay the surtaxes on the incomes from them, and so they were calling their mortgages and were calling them very extensively. So much so that the mortgages recorded in Greater New York in 1906 amounted to some $872,000,000 and in 1918 amounted to $132,000,000, a falling off of $750,000,000; and that process is still going on.

The Merchants' Association finally reached the conclusion that, if possible, we had to draw money back into the mortgage market in competition with the tax-exempt securities. We knew that it was useless to suggest that any amount of mortgages should be exempted from the income taxes in the hands of individuals because that would do just what the farm land bank bill has done—furnish great quantities of tax-exempt securities which the very rich could hold. You may have seen the record of the investments of Col. Delamar, who died a short time ago, leaving an estimate of a little over $30,000,000, $20,000,000 of which he left, fortunately, to Harvard and to Princeton and to Johns Hopkins University; but in his list of securities there was $3,100,000, 10 per cent of all he had, in farm land bank bonds.

Now, we did not suppose and the Merchants' Association did not suppose that Congress would be willing to produce tax-exempt securities for the millionaires. They were rapidly withdrawing their mortgage investments from the market and the rich estates were doing that also, and the Merchants' Association believed that the only way the place of these investors could be taken was by getting the small

people, the average, moderate investor into the mortgage market in place of the very large investor, and so they reached the conclusion that if $40,000 worth of mortgages or the income on $40,000 worth of mortgages in any one individual's hands could be exempted, it would enable us to turn the tide of money back into the mortgage market.

Mr. GARNER. May I interrupt you?

Mr. KELSEY. Certainly.

Mr. GARNER. The principal object of your bill is that you may continue to build homes and accommodate the people who are asking for homes in the cities.

Mr. KELSEY. Yes.

Mr. GARNER. I saw a statement from your State the other day that there were 16,000 vacant farmhouses now in the State of New York; is that true?

Mr. KELSEY. I do not know whether it is true or not, but undoubtedly there has been a great drift of population from the country to the cities.

Mr. GARNER. And you are now proposing to make it easier to continue to drift from the farms into the cities by providing these homes at a nominal or reduced cost, and what I want to ask is this: If that is the case and if they continue to drift from the 16,000 vacant farmhouses in the State of New York to the city of New York and we continue to legislate in the direction of making it easier and more desirable to go from the country to the city, who is going to produce what we eat and what we wear in this country?

Mr. KELSEY. That is a problem that legislation, probably, can not solve.

Mr. GARNER. But you are asking that we continue to legislate to make it more desirable for them to live in the cities.

Mr. KELSEY. We are asking you to help satisfy the clamor of people who are in the cities. We can not drive them out and you can not drive them out. There is a tendency to focus in the cities. They have got to have homes, and you will either be forced to provide those homes by private enterprise or you will be forced to do what England has done, very mistakenly, provide homes at public expense. Now, this country, certainly, does not want to go into the business of providing homes, and that will certainly center them in the cities and pauperize them.

Mr. GARNER. But every bit of legislation that you pass which tends to make it more desirable and more profitable to live in the city than in the country, the more inducement there is to go to the city, and the showing of the statistics this year is that the people who came out of the war who were farm boys have secured positions in the cities at higher rates of wages, and they are continuing to live there, and the result is there are not enough housing facilities in the various cities to take care of the people who have gone from the farms, and the query I want to put to you is; Who is going to produce the food and clothing, the raw material, for the people of America to use if you continue this character of legislation?

Mr. KELSEY. I think, perhaps, if it goes on long enough and you can stand it, and the municipal bodies can stand to have the rents go up and up on these people until there are riots and there is no place for them to live, they may go back to the farms, but I do not think any of you want to face the situation that will develop before you get

them back to the farms. You have got to house them where they are or else persuade them to go back to the farms.

Mr. GARNER. You want to continue to make it desirable for them to live there because you are afraid of riots at the present time and then when they all get into the cities and their bellies get empty, of course, then we will not have any riots. There will not be any trouble at all. You know that people can live out in the open if they have plenty to eat, but whenever they get hungry I do not think there is any restraint that controls them, and if the American people continue to drift to the cities and if we continue to pass legislation making it desirable for them to live in the cities, the time is coming when there will not be enough to eat in this country.

Mr. KELSEY. That may very well be, but if anybody sees any way by legislation or if they can stave off trouble until we can get the denizens of the cities moved out into the country, I do not know how that is going to be accomplished.

Mr. RAINEY. Let us see if there is a way. You are discussing a very interesting question, indeed, in national economics. In brief, what you want to do is this, to get more money back into the mortgage market which is now being attracted away from that market by tax-free securities; is that your position?

Mr. KELSEY. That is correct.

Mr. RAINEY. And by tax-free securities, you mean your own municipal bonds in New York.

Mr. KELSEY. State bonds, Government bonds, farm land bank bonds and War Finance Corporation bonds.

Mr. RAINEY. Government bonds do not seem to be attractive as compared with your municipal bonds.

Mr. KELSRY. Oh, they are, at the present rates. I talked with the president of a large savings bank yesterday who I knew was going to receive some million dollars paid in out of a large mortgage and I tried to get him to put it back into the mortgage market and take some smaller mortgages, and he said, "Oh, no; if that money comes in I am going to buy Liberty bonds at 88."

Mr. RAINEY. What rate of interest do your municipal bonds carry in New York?

Mr. KELSEY. They pay about 4½ per cent, tax free for all time, as long as they live.

Mr. RAINEY. And that is one of the competitors for your mortgage money?

Mr. KELSEY. Oh, yes.

Mr. RAINEY. And you understand that your municipal and State bonds are free also from national or Federal income taxes.

Mr. KELSEY. Yes, sir.

Mr. RAINEY. Now, where do you get that impression.

Mr. KELSEY. Because, as the law stands now they are made so.

Mr. RAINEY. No; you are mistaken about that. The sixteenth amendment permits the taxing of securities of that kind.

Mr. KELSEY. But you have not done it.

Mr. RAINEY. Let me tell you why we have not done that. In 1917 we passed a bill through the House which taxed them. The bill went over to the Senate and the Senate took that out. I was one of the conferees and so was Mr. Fordney, the chairman, and I know all about it. The sixteenth amendment permits the taxing of a man's

income from whatever source derived. There can not be anything plainer than the sixteenth amendment. At the time this proposition to tax income from municipal bonds went over to the Senate, the 3½ per cent Government bonds were selling almost at par. As soon as the Senate committee took it out and it went into conference, the conferees reversed the situation, and we had to agree with them to get a bill at all, and so the conferees exempted municipal bonds. The House stood out for that tax to the very last. Just as soon as the conferees exempted municipal and State bonds and the salaries of State officers and took it out of the bill, then all of you gentlemen who are engaged in selling municipal bonds in New York called attention to the fact that municipal bonds and State bonds and the salaries of State officers were exempt under the amendment, although as a matter of fact, it is not, and the 3½'s began to fall at once, until they reached their present level, showing that your clientage preferred to invest their money in State bonds and municipal bonds which you believed and had told them were tax free, and that is where the money went, and that is the trouble you are having now with your mortage funds, so you have yourselves to blame.

Mr. KELSEY. Oh, no; we do not deal in municipal bonds or corporate bonds at all, but purely in mortgages.

Mr. RAINEY. Then the other New York gentlemen who do are responsible for that situation.

I want to say that I think in the near future we are going to tax municipal and State securities.

Mr. KELSEY. The mortgage borrower will be perfectly satisfied if you will only take your exemptions off so the mortgage borrower has a free field and can get his money. That will be entirely satisfactory although you will then need to repeal the usury laws which are very stringent in some of the States. The mortgage borrower feels that having granted so many exemptions you have carried him to the middle of the stream where he is going to drown unless you carry him to one side or the other, by giving him a lift to go across to the other side or by repealing your other exemptions so you carry him back to the side where he has an equal opportunity.

Mr. RAINEY. If I have my way we will tax incomes from municipal bonds and State bonds and all that sort of thing.

Mr. KELSEY. That is all we ask.

Mr. RAINEY. And that will relieve the situation to which you call attention.

Mr. KELSEY. We know perfectly well that exemptions are vicious and we wish there were not any, and if there were not any, we would not have a word to say.

Mr. GARNER. May I ask a question in that connection? As representative of the gentlemen here who are in favor of these bills, do you favor taking out of the present law the exemption of municipal and State bonds?

Mr. KELSEY. If you will go the whole length.

Mr. GARNER. What do you mean by "going the whole length"?

Mr. KELSEY. If you leave tax-exempt securities on the market to a sufficient extent to take the money that otherwise would go to the production of houses, you owe it to the people who want to build homes for themselves to put their mortgages on a parity with those investments so they can get the money.

Mr. GARNER. If we take the exemption off of municipal bonds, and there are several hundred million dollars of those bonds issued each year, then that money would probably come in competition with mortgage securities.

Mr. KELSEY. Oh, yes; and to that extent it will help. You would then carry them part way back.

Mr. GARNER. What other exemptions would you take out of the law?

Mr. KELSEY. If you want to put these people on an equality, remove all exemptions. It would have been better if you had never exempted your Liberty bonds, and would repeal the exemption, if you are free to repeal the exemption.

Mr. GARNER. We have a contract in that case.

Mr. KELSEY. I do not think you can repeal the exemption on the municipal and State bonds that are now out, and what we say is that until you do, you owe it to the mortgage borrower to put him in a position where he can get the money.

Now, this is the situation: This measure has been criticised because it was said to be an investor's bill. It is not an investor's bill at all. The investor will take care of himself and he is simply taking care of himself now and is abandoning the mortgage market. The estate of Hetty R. Green had millions of dollars in mortgages, and they put up the rate to 6 per cent, and when the surtaxes came on those mortgages netted Mrs. Green's estate less than 2 per cent. What do her executors do? They collect in every one of them and put the money into municipal bonds and they are getting 4½ per cent instead of 2 per cent, and why should they not do that? Of course, they are doing that and that is the trouble with the mortgage market, and now it is getting down to the small people. A man with an income of $30,000 can not hold a 5 per cent mortgage and net 4 per cent on it, and he is calling it.

Here is the situation in Manhattan to-day. There has been a great increase in the number of mortgages recorded and people have said, "Oh, the money is turning back into the mortgage market." It is not turning back at all. There is a very active buying and selling market there, and $156,000,000 of mortgages have been recorded in the first four months of this year in Manhattan alone against a normal of $37,000,000, four times as many. If you look at those mortgages, you will find that $88,000,000 of them are purchase money mortgages, no new money at all. A man is anxious now to sell on a rising market and sells for a little cash and takes a big mortgage. There were $88,000,000 of first mortgages and some $15,000,000 of second mortgages, most of which are also purchase money mortgages. The rest, about $15,000,000, are building loans on great big buildings, where only a little amount has been advanced, and there is about $15,000,000 in all that $156,000,000 that represents new loans of moderate amount made by individuals; and during that time $43,000,000 of mortgages have been satisfied of record. So that as a matter of fact, on this exhibit which seems to belie the fact, the fact is that the money is still running out of the mortgage market so that $25,000,000 more has been withdrawn than has gone into it in four months.

Now, an objection that has been raised to this measure is on the principle that it is going to make further exemptions. Leave out the word "further," and we would admit it. It is wrong to make any exemption, but you have made so many that you have put the borrower in a hole and it is the borrower who asks this legislation. You have got to provide homes for them. You can not say that they must live in the country and you can not control that. They are in the cities and they are making a terrible fuss, not in New York alone; it is true all over this country. It is just as true in St. Louis. It is true in San Francisco and Los Angeles, and people are doubling up to live in the cities.

The other argument against the measure has been that the Treasury can not afford to lose the revenue. We believe that we can convince this committee that the Government will gain in revenue instead of losing. Now, I have here the figures, and they are simple enough. You take a $1,000,000 construction operation, and $300,000 of land—which is not paying a cent—is put in, and $700,000 of construction, which the contractor is paid for building the houses, and there is a mortgage of $500,000. It is that mortgage of $500,000, cut up into small pieces and distributed among the people who can afford to take them, at 6 per cent interest or an income of $30,000, that we ask to have exempted so as to get the money into the business.

Now, in that case the State has not lost anything because it has not existed before. It has gained through the income which will come from that $1,000,000 investment. The income should be $60,000 net to the man who has invested the money. He gets an exemption on the $30,000 that he has paid in interest, so that there is $30,000 in income on which the State will collect income taxes, which now does not exist, and out of which it is not getting anything. But that is not all the State gets. The contractor should make 10 per cent on his $700,000 operation, which is $70,000, and he has to pay an income tax on that. The material men and the others who furnished, perhaps, $300,000 worth of material, I guess now make a good deal more than 10 per cent, but suppose we say they make 10 per cent; they have to pay on that and there is $100,000 of income, which, by setting the wheels in motion, the State will collect an income tax on, and so far as new construction is concerned, the State will gain four times as much as it exempts from a mortgage, which does not now exist.

Mr. GARNER. What about the question I asked a moment ago? What will society gain by congesting the population of the United States in the cities?

Mr. KELSEY. It is perfectly futile to talk about that. We can not control it, neither can you. It is there, and it has created a problem which it is up to you to solve, and you recognize it is up to you to solve, because you are considering all sorts of propositions to ease up on the housing problem in the cities; and if you do not do this, you will within a year or two be following in England's wake and proposing State construction of homes, and don't you think that will hold them in the city? The theory is that you build the homes with city money or Federal money and rent them for less than the individual can build them for. You are giving that much bonus to the tenant and then he will not move to the farm.

Mr. GARNER. Do you favor the Government going into the business of building houses?

Mr. KELSEY. No, I do not; and it is the last thing you should do, but you will be forced to do it if you do not do something for the

borrower and let him get a home of his own. This situation is not in New York alone.

Within 10 days I have read a dispatch from Kansas City which says that the farmers throughout Kansas are right up against it. They do not know what they are going to do with their maturing mortgages. The Federal land bank is closed to them because of the contest over the validity of the exemption and individuals are calling in the mortgages because they want to put their money into something else, and the farmers do not know what they are going to do.

Mr. GARNER. I wish you would try to get a resolution from the farmers' organizations indorsing this bill. I do not think you would be able to do that.

Mr. KELSEY. Well, they may want to try it out and have the mortgages on their farms foreclosed, but when they wake up to the real situation I think self-preservation will tell them that they should be favorable to it.

Mr. BACHARACH. Is it not true that the main reason money is not being invested in mortgages now is because people can make more than 6 per cent to-day by investing their money in other securities of a very substantial nature?

Mr. KELSEY. Yes; of course, the investor is after the best rate of interest he can get. We have been through this experience during the war: One of our companies guarantees the payment of mortgages between the borrower and the lender, and of course, we watch very carefully the maturities and if one man calls his mortgage we try to find another to take it and keep the money in the mortgage market. During the war the calls increased heavily, more heavily than we could get takers for the mortgages. After the armistice the situation improved a little and the calls diminished in number, and also we put up the rate of interest to the borrower, because he always has to pay and we kept the lenders by paying them a little more. Within six months the tide has turned again, because the Government bonds have gone down so much that even $5\frac{1}{2}$ per cent does not attract the lender any more, and he has commenced to call his mortgages again. He is after the greatest rate of interest he can get.

Mr. BACHARACH. My thought about it was that when money does get cheaper and people can not earn as much as 6 per cent, then they will naturally go to mortgages.

Mr. KELSEY. I know, but is it worth while to wait until that happy time comes? This matter is urgent. It is right up against us to-day. Here are the statistics: In 1910, there were 110 families for each 100 homes. That is about normal, because there is always some doubling up, because children live with their parents or parents live with their children. By 1915 there were 115 families for each 100 homes. That was pressing somewhat. By 1920 there were 121 families for every 100 homes, and the requirement to-day to keep it down to 121 to 100, which is making a great row in all the larger communities of the country, will require the construction of 409,000 homes each year.

Mr. GREEN. Where do you get those figures?

Mr. KELSEY. They have been carefully compiled from data collected by the Department of Labor of the United States Government.

Mr. GREEN. Suppose a family has rooms in an apartment house, do they consider that family as not having a home?

Mr. KELSEY. Oh, no; they have a home. The apartment houses are all counted, but that is five rooms to a family, whether you are in an apartment house or in a house of your own.

Mr. GREEN. But a family is estimated as having so many rooms. I do not see how such figures can be compiled.

Mr. KELSEY. I am not a statistician and I have not compiled them, but I have gotten them from articles which have been published showing the results of the investigations of the Department of Labor; but let me go on, because these are the figures given, and they need attention. It will take the construction of 2,100,000 homes during the next five years to hold things as they are, and to put things back to a congestion no greater than the congestion when the war broke out in 1914, will require during the next five years the construction of 3,300,000 homes.

Mr. WATSON. Mr. Kelsey, I understand your company lends money on mortgage securities?

Mr. KELSEY. Yes.

Mr. WATSON. In 1914, do you recall the amount of money you loaned on mortgages?

Mr. KELSEY. The Title Guarantee & Trust Co. lends freely on mortgages to people who buy homes.

Mr. WATSON. I understand; but what was the amount?

Mr. KELSEY. About $36,000,000.

Mr. WATSON. And at what rate of interest?

Mr. KELSEY. Five per cent, most of it.

Mr. WATSON. What is the State tax in New York on mortgages?

Mr. KELSEY. There is no tax on mortgages.

Mr. ROWE. There is a record tax of one-half of 1 per cent.

Mr. KELSEY. Yes; that is a local tax.

Mr. WATSON. The borrower, of course, pays that.

Mr. KELSEY. The borrower pays everything.

Mr. WATSON. What percentage of the value of the property do you lend?

Mr. KELSEY. Sixty per cent.

Mr. WATSON. In 1914?

Mr. KELSEY. In 1914, yes; and it is still 60 per cent.

Mr. WATSON. How much did you lend in 1919?

Mr. KELSEY. We stick to that rule of 60 per cent. Sometimes it may be as high as 65 per cent, but it is from 60 to 65 per cent of our estimate of the value of the property.

Mr. WATSON. In many of the cities now the rate is as low as 40 per cent.

Mr. KELSEY. That is, if they take the value as the present cost. We do not take the present cost. We estimate as carefully as we can the normal value of that property in average times.

Mr. WATSON. What is the rate of interest you now charge.

Mr. KELSEY. Six per cent.

Mr. WATSON. You have gone up 1 per cent.

Mr. KELSEY. It is 1 per cent higher than it was. We can not go any higher.

Mr. WATSON. If this bill should pass, do you think you will have any more applications for mortgages than you have now?

Mr. KELSEY. On the part of the borrowers?

Mr. WATSON. Yes.

Mr. KELSEY. We have more now than we can supply. The borrowers want this bill so we can entice money from other investment markets into the mortgage market and take care of the wants of the borrowers. It is not to please the investor that we want it. We want to entice his money into the mortgage market to take care of the borrowers. These companies are not concerned personally at all. They are just the go-betweens between the borrowers and the lenders, and the borrowers are clamoring at our doors for money with which to build homes and to take care of call mortgages, and we want to coax the lenders back. It is not a lender's bill. He is taking care of himself very well.

Mr. TREADWAY. I was interested in your discussion with Congressman Rainey. As I understand it, there is rivalry for money as between your form of loan and municipal securities, and you consider that municipal securities have the advantage on account of the tax-free feature.

Mr. KELSEY. Surely.

Mr. TREADWAY. Would it accomplish the same purpose and put you on an equality if the municipal securities should be taxed in accordance with previous House legislation rather than to provide exemption for your line of securities which are mortgages?

Mr. KELSEY. To that extent it would help. It would put mortgages on a parity with municipal bonds, but as long as there is a great volume of other securities out that do not pay the income taxes they will have the advantage then both over municipal bonds and mortgages.

Mr. RAINEY. There is no other kind except the 3½s.

Mr. TREADWAY. That is what I wanted to ask. What other kind is there?

Mr. KELSEY. There are the farm loan bonds. The very reason we figured on a minimum of $40,000 was that that did not carry the exemption to any one as high as the exemption on Liberty bonds on normal and surtaxes was carried, because they can hold $65,000 of fourth 4¼s.

There is one other phase of this matter that I would like to simply touch upon. There may not be time to demonstrate it, but an objection which has been urged has been that while the State might save itself on the mortgages on new construction, it could not save itself on what it would lose on existing mortgages. We are satisfied that it can; that all the existing mortgages in due time might become exempt from the income taxes and yet new construction will make up for more than four times as much old mortgages as are exempted.

Mr. BACHARACH. Mr. Kelsey, I fear some of my colleagues did not understand your answer to the questions as to the valuation of 1914 and of 1919. You do not mean to say that you are valuing now the same as in 1914?

Mr. KELSEY. Oh, no.

Mr. BACHARACH. But you are using your own judgment as to the valuation of the improvements?

Mr. KELSEY. Certainly; and our limit is 60 per cent of what we think it is worth, and we guess as closely and as accurately as we can.

We are satisfied it is a fact that the State will not lose in income in the long run if it exempts them all, even considering the income from existing mortgages; and aside from all that, it is estimated, and

pretty accurately, that the tenant is paying universally, throughout this country, at least 20 per cent more in rent because of the dearth of space and because of the profiteering, than he would pay, even allowing for the high rent, because of the high cost of construction, and the result would be, and you can figure this out accurately, the tenant would be saving himself in rent five times as much as the Government would be losing in taxes. Now, if the Government can make up this loss by the increased production that will take place, and if the tenant at the same time is saving five times as much, then it should be done.

Mr. FREAR. May I ask how it was determined that $40,000 should be the basis for the exemption? What body of men determined that?

Mr. KELSEY. It was just an estimate of how far we needed to go to get the average man's money and not run the risk of the big mortgages and the rich taking advantage of it.

Mr. BACHARACH. Will they not take advantage of this bill and where there is a family, for instance, divide up $200,000 and each one take $40,000 of loans?

Mr. KELSEY. Even if they do, Mr. Bacharach, you get the money into the mortgage market, and that is what we want. Millions have been running out of it. I wish they would, if a family has $200,000 and there are five members of it.

Mr. BACHARACH. Then why limit it to $40,000?

Mr. KELSEY. Because, do you want men like Col. Delamar putting millions into it? If so, all right. The more money, the better for the borrower, but we did not think that the Congress would face the proposition of making complete exemption so that the $1,000,000 mortgage and $5,000,000 mortgage could be taken by the very rich; but it is all right to get the money of the average man, and if there are three or four in a family who have the money it would be all right to get that money into the mortgage market, because it produces construction, and the new construction will pay the State in the long run more in income taxes than you are waiving, and you will be taking care of tenants whereas now you are not doing it. I am sorry to have taken so much of your time.

Mr. PARISH. Mr. Chairman, I am going to ask you to listen now to Mr. Charles H. Barron, of Columbia, S. C., a lawyer of very wide experience in the financing of real estate operations, particularly agricultural operations.

STATEMENT OF MR. CHARLES H. BARRON, OF COLUMBIA, S. C.

Mr. BARRON. Mr. Chairman and gentlemen, I am a little out of my class with these gentlemen who are bankers from New York. I am from South Carolina, and what Mr. Garner of Texas has said appeals to me. Mr. Garner wants to know who is going to raise the produce on the farm if you make it so attractive that the people in the country are going into the towns. Another gentleman over here, whom I do not know, wanted to know why State bonds and municipal bonds should not be taxed. I was unfortunate enough, I might say, to have been on the executive committee to sell your Liberty bonds when you wanted to sell them in South Carolina. At the time we began selling them I do not think there was one purchaser out of one thousand who had ever clipped a coupon before.

We went out and sandbagged them and sold the bonds to them, and our personal demands and the personal equation entered into the whole thing. The same thing was done with Mr. Crisp's people down in Georgia. They practically threw them down and took the money away from them.

Mr. CRISP. They looked up their tax returns and assessments and assessed them a certain per cent of the taxable returns.

Mr. BARRON. Yes; and took their bank assets and told them they had to take them.

Now, we have been in the mortgage game for some time lending money in North Carolian, South Carolian, and Georgia, most of our funds coming from the Vermont Savings Bank, where the major portion of the money has come from since your Harrison law went into effect in Texas. We have been getting other moneys from the Penn Mutual, the Fidelity Mutual, the Metropolitan, and the New York Life. Now, at the present time we are up against a difficult situation. I am not so much interested in building homes in towns because we are practically in the country ourselves, being in a small town, but I am interested in being able to tell the applicants we have got definitely that they can get the money. At the present time, Mr. Garner will find that the New England savings banks who put in the major portion of his farm loans are out of the market for new business.

Now, how are they going to get the money and how are they going to know that they can get it unless you give some relief at the present time. I do not know whether I am in favor of this exemption forever or not, but I think as an emergency measure we should have it. The only way you can commit on a loan at the present time is subject to approval and remittance at our pleasure, when we can get it, and we tell them we do not think we can get it before some time in August. Do you know why? The only people in the market at all now are the insurance companies, and what happened in 1914? I presume some of you people here did just what I did. I borrowed on the reserve on my policies; that is, the loan value. That loan value and the reserve on your policy is what the insurance companies lend to Mr. Garner's people down in Texas and to Mr. Crisp's people in Georgia. That is where the money comes from. Now, when you borrow it they have not got it to lend, so what are you going to do? You have got to have a collateral that is attractive, and it has got to be attractive to the local men so you can appeal to their local pride to put their money into it.

Now, one thing that appealed to me in selling Liberty bonds was the fact that our southern people, particularly in Texas and South Carolina, have never been investors. We have always been borrowers and have always been contributing to New York and to the New England States. This created the idea of thrift. At the present time you have a situation where they have not got the money and you can not tell an applicant when you get his application definitely that he can get the money with which to grow his crops, because the banks are loaned up to the hilt, and you should be able to tell the man that he can go ahead with his crops.

One of the Congressmen over here asked, why not tax municipals and I think Mr. Rainey asked the same question. We handle municipal bonds and do you know why we went into it? In our section, as in other sections of the South, we have a large amount of undeveloped land and how are you going to develop it if you do not have good roads. You know that every one of you when you get out on the stump talk about good roads and schools; at least, that is what they do down our way and I presume that you all do yourselves when you go out home. We have got to have good roads. At the present time there is very little market for road bonds, and we went into it for the simple reason that if you had a loan on a farm and we appraised that land at $50, we knew that if we put a hard surface road in there, instead of having a valuation of $50 in that security, when we asked the estates to put their money in it, or asked individuals to put their money in it, we would have a valuation of $75 or $100 back of that investment.

Mr. TREADWAY. With such a platform as that, how does it happen you are not in Congress?

Mr. BARRON. Oh, no; far be it from me to fool with politics. Now, you have your Liberty bonds at the present time distributed among our people and in order to be sure that they are going to get the money to go ahead and farm, they have got to take those Liberty bonds and sacrifice them. I am somewhat ashamed at times. You know that when they asked us to go into those campaigns and put them across down there, we went across every time, and I used to get up in the theaters with a dollar bill in one hand and a $3\frac{1}{2}$ per cent bond in the other hand, because the bonds looked like a big fat bunch of dollar bills, and I would read, "We promise to pay to bearer." I would read both of them the same way, and would say that one is just as good as the other, and the only difference is that if you put the dollar bill in your pocket and forget it, it is only a dollar when you take it out, but if you take out your $3\frac{1}{2}$ bond, what do you get? You have your interest on it and it works while you sleep. Now, you have got to give them something they can put their money in, something they can see, and if you will put through this bill I believe I can get money to help finance the crops down in our section. I do not give a rap about what they say about the building of houses in New York City. I am not interested in that. What I am interested in is in getting an exemption here up to the $40,000 so that we can interest our people in putting up the money and put the thing across. I would not want to increase it any more than $40,000, as one gentleman asked, because most of our people will run about $40,000. Mr. Crisp and Mr. Garner, who are from our sections down there, know that.

Mr. GARNER. We do not usually borrow money on long-time mortgages to move a crop.

Mr. BARRON. They have had to borrow. For instance, in 1916 down in the Peedee section of South Carolina, where they are raising tobacco now, they had unusual rains down there, the banks had loaned up as far as they could, and the only way they could get the money was to get it from the mortgage companies.

Mr. GARNER. Were they temporary loans to move a crop?

Mr. BARRON. They made a temporary loan with the right to anticipate after the second year. Now, if you need money to move your crop, and know definitely you are going to get it, you know very well that you would run it for two years, if you had to.

Mr. GARNER. Yes; and under the farm loan act, and under our system of banking, both Federal and private, you can get the money at a low rate of interest, and your bonds are exempt.

Mr. BARRON. You mean under the farm loan act?

Mr. GARNER. Yes.

Mr. BARRON. They have turned loose all the farm loan business.

Mr. GARNER. Temporarily, of course, because they are waiting on the Supreme Court to render a decision as to its constitutionality.

Mr. BARRON. I prefaced my remarks by saying that this was an emergency. Where are you going to get your money?

Mr. GARNER. Let me ask you a question. Suppose the Supreme Court should hold the farm loan act to be constitutional on the 7th proximo, or between now and the time we adjourn, would you need this legislation as far so you are concerned?

Mr. BARRON. The farm loan act has got a bunch of stuff ahead of them and by the time they establish the machinery and close them up, you would not get any relief for them this fall.

Mr. GARNER. But Congress just passed an act the other day putting the Government in the market for those bonds up to March 1, and arrangements have already been made up to that time, and only those from March 1 on would have to be arranged for. So, you see, Congress is trying to reach this matter by making it desirable, as far as possible, for the farmer to produce in this country and make it profitable for him and enable him to get cheap money, and what I object to is to continue to pass legislation that induces people to go to the cities and live there, when we know that if that is continued some day destruction is coming to this Republic.

Mr. BARRON. I think it is going to cut both ways, and I have men who are going to need this money who have not got their applications in at the present time, and they can not get them passed on for some time. It would take you some time to get the machinery back in our district before you could get to lending money, and in the meantime they are waiting there and do not know where they are going to get their money. As I said before, this is a temporary matter, and we need this legislation, and I certainly trust that you gentlemen will give a favorable report upon it.

I thank you.

Mr. PARISH. Mr. Chairman, it is quite evident from the inquiries and questions that have been raised by the honorable gentlemen surrounding you here that you can not touch this question of exemptions anywhere without finding that it affects every vital industry in this country. We sympathize with you and with all of you gentlemen very thoroughly in the problem you have before you. Our Nation is confronting almost chaotic conditions. It is not only the building industry and the housing industry that need this exemption, but it is the railroads, the farms, and then there is the food problem. We agree with the gentleman who sits here (Mr. Garner) that food is the primary necessity of the country. Now, you are going to help this situation all along the line, from the wood where you take out your timber for building construction, from the mines where you get your steel and iron, from the cement mills, the man power of which is now engaged in the automobile industry, and from all the other ramifying industries that contribute toward construction.

If you concede that the food problem is the first, then construction is the second most important industry on the face of this earth and most important to our country because that is where the people of this country invest their savings. That is where we produce productive industry that will pay four times, at least, as Mr. Kelsey has shown, as much revenue as the Government and the municipalities now receive, because it will produce revenues that they do not get now at all but revenues which they will receive if you will only release this small portion of the tax. Now, there is no class of men in this country who know more about this situation to-day than the promoting real estate operator, and I am now going to call upon Mr. John L. Weaver, the president of the National Association of Real Estate Boards, and ask him to show to you what his people all over the country think about this matter.

Mr. FREAR. May I ask you one question because I think this is a matter we are all interested in. What amount of money will be taken out of the Treasury by this exemption that ordinarily would be collected and turned into the Treasury?

Mr. PARISH. It is very difficult to make that calculation. We have tried for a long time to get at some definite conclusion about that. The best statistician that has been employed by the Government, Mr. Franklin L. Miller, employed by the Labor Department, confessed in his own exposition of this matter that he could not get beyond 65 per cent of the total statistics, but it does not appear as if the total amount you would remit in the way of taxes over a period of years—not at first, because this thing can not all be done at once—but the total amount you would remit in the way of revenue will not exceed two billions of dollars and you will get a great deal more than that.

Mr. FREAR. And the suggestion is that we do remit this amount which will reach two billions of dollars?

Mr. PARISH. That is, two billions of capital.

Mr. FREAR. Now, how shall we make good the deficit which will be caused in that way?

Mr. PARISH. I will say in the first place that your taxables are diminishing. They are disappearing because people are liquidating their mortgages. That line of taxables is disappearing just as fast as the mortgages mature, and you gentlemen are all business men or lawyers doing business for business men and you know that mortgages on the average mature in about three years, so that about one-third or at least one-fourth of the whole volume is maturing every year, and now since about 70 to 75 per cent of all the mortgages are taxable, a very large proportion of those that mature are being called and liquidated and redeemed. We have shown you from our statement here that over 43 millions of dollars of mortgages were paid off in Manhattan alone in the first four months of this year. That was taken out entirely from the mortgage market.

Mr. FREAR. There were $88,000,000 of mortgages made on new purchases according to Mr. Kelsey, who preceded you.

Mr. PARISH. That was for three months. For another month, adding one more month, it is $111,000,000 new mortgages were made. Of course the money from those is taxable, but those imply no new investment in real estate.

Mr. BACHARACH. They were not purchase money mortgages?

Mr. PARISH. They were purchase money mortgages; they do not mean new money in the market.

Mr. FREAR. But they will bring in income?

Mr. PARISH. They will bring in income, and you are aiming at that, of course; so that all the income, the revenue, the Government will be remitting under this bill will be offset by the addition of new purchase money mortgages along that line, and the Government or no part of them can lose anything.

STATEMENT OF MR. JOHN L. WEAVER, WASHINGTON, D. C., PRESIDENT OF THE NATIONAL ASSOCIATION OF REAL ESTATE BOARDS OF THE UNITED STATES AND CANADA.

Mr. WEAVER. I am for the moment president of the National Association of Real Estate Boards of the United States and Canada, quite an imposing title. We have constituent boards in over 190 cities in this country and Canada, beginning with the great city of New York and running throughout the country and the Pacific coast, and I speak for that group.

We come to ask for a stimulation of the building industry. I come to say to you gentlemen that this building industry is so depressed, the existing revenue act has had such a bad effect on the building industry, that you will be justified in enacting legislation that will stimulate that business. I want to say that the men I represent do not care for exemptions or subsidies in any way; we are opposed to that. We believe the trouble we now have is the result of, I may say, class legislation. This exempting of bonds of the Government, municipalities, farm-loan banks, etc., has caused this very trouble. And the suggestion made here this morning that if those bonds were brought up as to their responsibilities and duties in the tax line, to that of mortgage money—if that were done, the matter would clear itself in my opinion.

I want to say in reply to a question from the gentleman who has just left as to what we should do to prevent the influx of the country people to the city that, in my opinion, it is this, to again avoid class legislation. There has been, and I so stand here and charge, class legislation going on in respect to the cities, beginning in this Washington City and going throughout the country—an interference with the law of supply and demand—that is causing this movement of the population from the country to the cities.

The CHAIRMAN. To what class legislation do you refer?

Mr. WEAVER. I am coming to that, sir. I mean the so-called regulatory legislation, controlling rents and the condition of rents in the cities; those acts which presume to set the price of commodities. I tell you gentlemen that those acts interfere with the law of supply and demand, that you can not and never will get around.

Mr. LONGWORTH. That is practically all war-time legislation?

Mr. WEAVER. It exists to-day, does it not?

Mr. LONGWORTH. Yes; but that is because we are technically at war. But what acts outside of war-time acts are there that interfere with rents?

Mr. WEAVER. Will you let me come back to that? These acts have set rents at a low price, lower than they should be; these acts have set the price of food; these acts in effect have made it desirable and advantageous for people to live in the cities where they could get low rents and lower prices for food than out in the country, and of course they flood into the cities. I tell you this interference with the law of supply and demand is the big trouble in the case and is the cause of this flow of population from the country into the city.

Mr. LONGWORTH. But what legislation other than war-time legislation is there that so interferes with the law of supply and demand?

Mr. WEAVER. My friend from New York City will tell you there are 12 or 15 acts affecting real estate in that city, passed by the last legislature.

Mr. LONGWORTH. By the State legislature. I was referring to congressional legislation.

Mr. WEAVER. We have in Washington City an act known as the Ball Act, which handles it in the same way.

Mr. TREADWAY. Has Federal legislation interfered with construction in Washington?

Mr. WEAVER. Federal legislation has interfered with construction in Washington and throughout the country in this way——

Mr. TREADWAY. Let me ask you about Washington particularly. You made reference to Washington, and I know, of course, you are interested in Washington real estate. Has there not been more construction going on here since this regulatory legislation than there has ever been?

Mr. WEAVER. Probably. I am not in possession of the figures to enable me to state. But, Mr. Treadway, this legislation is driving from the real estate market and from the housing market money in many ways. This very discussion sets up one way. You have legislation on the books which enables our banking institutions, the national banking institutions, to do a trust company and savings bank business, thereby drawing from heretofore long-time loans sums of money and funds into institutions that naturally do short-time loaning. That is exhausting the money market. The great trouble in this acute housing situation is the lack of money, and when such privileges are accorded to the banks that do this business, there is another source where the money is going.

Then the war-revenue act exacts so much profit, such a large part of the profit, in real estate deals, that the large transactions have not, during the past year, been consummated, thereby taking from the real estate market a source that makes it liquid, that would bring funds into the real estate market and funds that would naturally go back into real estate in some shape. Much of it would go back into real estate in small houses, which are so distressingly needed.

Mr. TREADWAY. A large number of small houses have been built, as well as the larger apartment houses, to our knowledge, in the last few years. Construction is going on now to an enormous degree and I am astonished at it; I can not see where a man in a business like yours expects to get his market.

Mr. WEAVER. When you put a drop of ink into a bucket of water it will cloud the whole bucket of water; and when you drive about the city and see what is going on it gives you an idea a great deal is being done. I will endeavor to get you some statistics on that. I think you are in error.

Mr TREADWAY. I would really like to see them, because I am very much interested.

Mr. WEAVER. I think the quantity of building is not sufficient to justify the impression which you seem to have.

Mr. WATSON. You speak of the lack of construction of buildings. Is not that because of the high cost of material and labor, and therefore when you go to borrow money for building purposes a man hesitates to loan the money a builder desires because he thinks this is only a temporary condition? Because of the high cost of building, if I loaned money in the amount desired, in a few years I probably would have control of the property—would own the property. That is the reason the individuals, as well as the banks, will not loan the money, because of the high cost of construction of property?

Mr. WEAVER. You are quite correct, that that has an influence.

Mr. WATSON. Is not that the whole thing?

Mr. WEAVER. No.

Mr. WATSON. So far as I know it is.

Mr. BACHARACH. If we do enact legislation to exempt real estate bonds, do you think that would aid the mortgage market at this time?

Mr. WEAVER. I am confident the passage of this act would relieve the situation, but I am free to confess I believe it is a temporary thing and will not cure the disease. I think it will do the stimulating which we need so much and may be by that time we will outgrow this bad condition.

Mr. BACHARACH. As I view it now, when money can earn 8 or 9 per cent in industrial securities, it is natural it would not go into the mortgage market until such time as money gets cheaper.

Mr. WEAVER. Let me take that point. There are quantities of money throughout the country that prefers a first mortgage investment to anything else, that would be put up for that investment.

Mr. BACHARACH. I agree absolutely to that.

Mr. WEAVER. They would rather have a 6 per cent clean-cut mortgage than 8, 9, 10, or 12 per cent in some of these industrial securities. They would rather have an investment of which they are in control themselves than short-time notes or stocks and bonds in corporations. So I tell you you are not correct in believing mortgage money would not compete with industrial securities.

Mr. BACHARACH. My experience is just the same in my little burg as it is in Washington and elsewhere, and up there mortgage money is called in because the people can earn more than 6 per cent. I had one client who had $2,000,000 invested in mortgages and he has called in every dollar because he could get more than 6 per cent for his money, and I think that is generally true.

Mr. WEAVER. I want to conclude with the statement that the housing industry, the building industry, is so depressed that you gentlemen will be justified—may I be permitted to say nay, it is your duty—to put such legislation on the statute books, or so change it that that industry will be stimulated and brought back in order that we may meet these pressing needs.

The CHAIRMAN. In other words, you recommend the exemption from taxation of money invested in mortgages, or to include in the taxable list other securities which now interfere with mortgage loans?

Mr. WEAVER. You have stated my conclusion, sir, better than I could myself.

Mr. CRISP. May I ask one short question? I would like to have your opinion as to this question. Of course, all the committee is familiar, to a certain extent, with the laws in Washington. I understood you to say that in Washington the real estate owners were not getting a fair return for their property. Did I misunderstand you, or do you think——

Mr. WEAVER. You did not misunderstand me.

Mr. CRISP. Or do you think rents are too high in the city of Washington?

Mr. WEAVER. I do not think rents are too high in the city of Washington. I mean to say the property owners of Washington City—I do not speak for the exceptional profiteer; I am glad to put the heavy hand of the law on him first, last, and at all times, but I speak of the class now of the owners of property in this city, and it applies to other cities, that they have not received that advance in rents that they are entitled to. I want to tell you that this cycle of profiteering, so called, is only the second one in my experience. The first one came in this city and in all other cities when the tenants stood at the counters and said, "I will take that house, or that apartment, at my price, if you paper, if you install new plumbing, if you do this, that, and the other, and if you give me two months' free rent." That was the first round of profiteering that took place in this and other cities. This is only the second. It is just a question of which party profiteers.

Mr. CRISP. I just wanted to get your testimony in the record, because I will weigh it with other testimony and give due consideration to your opinion as to the rents here.

Mr. TREADWAY. Let me ask one question: You were referring to this matter of profiteering, and that the owners of real estate in Washington are not to-day receiving a fair return on their investment.

Mr. WEAVER. In the majority of instances.

Mr. TREADWAY. Now, what advance over the rents of four years ago would you consider a fair percentage of increase to give property owners a similar return to what they were receiving when we went into the war?

Mr. WEAVER. I would like an opportunity to analyze that and submit my statement in writing.

Mr. TREADWAY. You have permission, of course, to revise your remarks.

Mr. WEAVER. I would like also to say, Mr. Treadway, that labor, coal, taxes, supplies, and all those things necessary to maintain and keep property in shape have gone ahead from 50 to 100 per cent, and along those lines I would base the increase in rents—not an increase of 50 or 100 per cent in the rent, but add to the normal rent the cost of these elements that go into maintaining and operating the property.

Mr. TREADWAY. I would be glad to have an answer to the question at your convenience.

Mr. WEAVER. I will submit it.

Mr. TREADWAY. You understand what the question is, what would be a corresponding fair rental to-day as compared with prices of five years ago, that would give the owner the same basis of return on his money?

Mr. WEAVER. Yes. Shall I submit that to you, sir, or to the committee?

Mr. TREADWAY. Let it go into your remarks.

The CHAIRMAN. Whom do you wish to have heard next?

Mr. PARISH. There are half a dozen I would like to have heard. Mr. E. L. Brown, of Birmingham, Ala., I should like to have speak for a moment now on this matter.

STATEMENT OF MR. E. L. BROWN, OF BIRMINGHAM, ALA.

Mr. BROWN. Mr. Chairman, I am from Birmingham, from the South and, unlike most others, I have no disposition or ability to make a speech.

As I see this proposition, there are two major propositions involved. The first is whether or not at this time a great emergency confronts this country in the matter of properly and adequately housing its population. If that emergency does exist, then the question is whether or not the Government can come to the rescue without entailing a loss upon its revenues in the operation of the Government. Mr. Kelsey has very admirably stated to this committee that this exemption to the extent of $40,000 invested in mortgages, instead of losing revenue to the Government, will add to it. It is a known fact, I think, that this housing emergency does exist; that it is not an emergency that applies only to New York or to Washington or to the large cities of the East, but it applies to every hamlet and every village and every city in the United States.

In Birmingham, my home, building has practically ceased; and it has ceased for one reason only, and that is the inability of those who desire to build to get mortgage money in order to build. One of the great reasons of unrest, in my judgment, in this country to-day is the crowded and insanitary conditions of the houses. I believe that a great deal of the unrest, of the bolshevism and kindred things are caused from this one fact alone. Even if it entailed a slight sacrifice in the revenues of the Government to meet this situation, I think it should be done; but when it does not entail it, it seems to me it is your duty to do it.

Mr. DICKINSON. Is not the failure to build largely due to the high cost of building material?

Mr. BROWN. No, sir. Thousands of builders and real estate owners are perfectly willing and ready to build now if they can get the money with which to build. The lack of building now is due to the fact of the inability on the part of those who want to build to get the money.

Mr. TREADWAY. How about the price of material and labor?

Mr. BROWN. They are high.

Mr. TREADWAY. Is not that a deterrent, also?

Mr. BROWN. That is one of the things, but that is not the main one.

Mr. PARRISH. Mr. Cyrus C. Miller, I will call next. Mr. Miller is the former president of the Borough of The Bronx, and he has something to say about the drift from the towns and the country to the cities.

STATEMENT OF MR. CYRUS C. MILLER, OF NEW YORK, N. Y.

Mr. MILLER. Mr. Chairman and gentlemen, I won't take long. I would like to address myself to the argument of the Member from Texas, who, unfortunately, has left, and I will have to do it anyhow.

Some 25 years ago I was retained to make a survey of the State of New York to find out why the farmers left the farms and drifted to the cities. I made a thorough survey and have kept track of the matter ever since. There are various things, but the argument that this encouragement of the people going to the cities will injure the farmers, it seems to me, is put wrong end to.

It is quite evident unless more buildings are erected rents must go higher, and if rents go higher, the working people must pay higher rents, and the higher the rents they have to pay the less the buying capacity they have and the less money they have to pay the farmer for his produce. So it is absolutely necessary, from the farmer's point of view—and when I say that, I am interested in the marketing business; I am a city man by adoption; I was born in the country and worked on the farm and have a farm now—I have been connected as counsel in New York for a great many years with marketing organizations, and I know we have kept in touch with Texas, California, and various other States, with the marketing situation, and we know as marketing men that the high prices which the city men have to pay for their rents bear directly in depressing the prices which we pay to the farmers. We know that.

Mr. RAINEY. Did you find out why they left the country to come to New York?

Mr. MILLER. Yes.

Mr. RAINEY. Why?

Mr. MILLER. Because the farmers did not make any money. They did not make any money on the farms in New York State, and until this Government and these States take some steps to market the farmer's produce in a sane and intelligent way, the situation will continue. The city of New York has a marketing system which is chaos personified. Other cities of the States of the country with which I am very familiar have marketing facilities which are perfectly absurd. There are no good marketing facilities in this country; none whatever. If you were to go to New York to trace a carload of produce that comes into New York, and trace it around to the ultimate consumer, you would feel an eel trap with the corpse of the eel in it would be nothing in comparison.

There is only one solution to the proposition it seems to me—more buildings must be erected, and there is only one thing to do, to stimulate money to come into the market. If the tenants do not have to pay so much rent, they can buy more food, and the farmers will get the benefit. And there is no new thing in stimulating a languishing industry; it has been done for the past 100 years. And this is a languishing industry and from the various angles of it, and not from that of the city renter at all, but from the farmers' point of view, and the marketing point of view, there is only one thing to do, and that is to get more money and build more houses.

Mr. LONGWORTH. Will you state what is the difference between what the New York farmer gets for his produce and what the ultimate consumer pays?

Mr. MILLER. He gets about 35 cents out of the dollar.

Mr. LONGWORTH. The farmer gets 35 cents out of the dollar?

Mr. MILLER. It would average from 35 to 45 cents.

Mr. LONGWORTH. Then the middleman gets the difference as profit?

Mr. MILLER. No; it is not profit; it is all waste. A carload of stuff will come in and there will be no way of handling it and it will stand out in the Jersey meadows, and then the board of health will come along and condemn it. Or a shipload of stuff will come in from Spain, and it will be dumped out on the dock, and that night the temperature will fall 20 degrees below zero, and the whole shipment will be lost.

Mr. FREAR. Let us assume the deal goes through from the producer to the consumer. How many people would handle that on the average?

Mr. MILLER. There is the wholesaler, who receives it, and the jobber and may be a second jobber, and the retailer. But the principle thing is the waste; the waste is something you could not imagine.

Mr. LONGWORTH. Then the combination of the waste and the profit to-day is something like 65 per cent?

Mr. MILLER. Yes. And nobody makes any particular amount of money. Why? During the war I was in the food board and had control of all this proposition in New York—the Federal food board. I had hundreds of investigators under me, and they went over hundreds of books and went into this profiteering business, because we were looking for those people; and when I saw the waste and delay and the trucking back and forth and all the various things that go into the food handling in New York, I said, "This thing is all wrong." And it is. And the farmer has to pay for it. I am not a theorist; I am a farmer, and I know.

Mr. HADLEY. What is your idea of marketing facilities to cure that situation?

Mr. MILLER. Why, to increase the terminal marketing facilities. When the Army went over to France, it immediately, at St. Nazaire, built adequate facilities, and hundreds of thousands of tons of foodstuffs were handled for this Government without delay.

The CHAIRMAN. I know a farmer in Michigan who shipped a carload of strawberries to a commission man in Chicago, and when he received the report back, the commission man said, "You owe me $2.48."

Mr. MILLER. I would not be surprised.

The CHAIRMAN. And he answered, "I have no money, but I can send you another carload of strawberries." [Laughter.]

Mr. MILLER. I know a case where 20 carloads of watermelons stood out in the Jersey meadows and had to be destroyed, and I know another case of 17,000 crates of Spanish onions, and I know of another case of 14,000. There is nothing new about those things; everybody knows them. And the more the New York people have to pay for rent, the less they can pay the farmer for his produce, and it comes right back to him. For years the drift has been to the cities because the farmer could not make any money; and he is not making any money now, and he won't make any money until he can be paid a decent amount for what he raises. I have a farm, and I know what it is. It takes quite a good law practice to support a farm. I know; I own a farm. [Laughter.]

Mr. TREADWAY. In New York City?

Mr. MILLER. In New York City. It takes a good practice.

The CHAIRMAN. I know of another gentleman in the room of the same opinion.

Mr. DICKINSON. The congestion in transportation is one of the things.

Mr. MILLER. Precisely; it is. And then with all the money you pay in extra rents, it means that much less the workman has with which to buy food, and he is not going to buy food from the farmer—he can not. He might want to, but he can not. And unless you stimulate this industry and provide a means for getting money for more buildings your farmer is going to suffer from Maine to California. And I know it, because I am in touch with these different farming organizations from Maine to California. That is my business.

Mr. LONGWORTH. Do I understand you to say in your opinion the lowering of rents will increase the value of produce?

Mr. MILLER. I mean to say just that, because the greater the buying capacity, the more money with which you have to buy, the better the price you can afford to pay. If I do not have the money to buy, I can not buy. There is nothing new about it; I am not introducing any new principle.

Mr. LONGWORTH. How would that affect the price the farmer gets, because you say he only gets 35 cents out of the dollar?

Mr. MILLER. Because now he can not sell much stuff; there is no way of getting it in and it is wasted on the farm and he stops raising it.

Mr. RAINEY. Will there be less waste if they have more housing facilities?

Mr. MILLER. I think one thing it will do, we will have more taxables, and to go into this terminal business and make decent facilities, you need money; and if you have the money to provide the terminal facilities they will buy directly from the farmers.

Mr. FREAR. That Jersey meadows situation of which you speak, and providing terminal markets, or questions of that kind; what relation has that to this matter of building?

Mr. MILLER. The more houses you build, the more taxable base you have and the more money you have to put into those things. I go to people now to talk about those things and they say, "Yes, but we have not any money."

Mr. FREAR. That is, indirectly, if we make this exemption, the city of New York will get more money so that they can build terminals and create a better market?

Mr. MILLER. Precisely, and there is a proposition now before the board of estimate and apportionment to build a great terminal market in the Bronx with all the modern facilities for handling, so that they can start a car of freight from California and put it into New York without any change; but we have not any money.

Mr. PARISH. I would like to call Mr. Robert E. Simon, who will address you on another phase, a very important phase, of this question relating to costly construction along the line of big business building, and that is the line in which he operates.

STATEMENT OF MR. ROBERT E. SIMON, REPRESENTING THE MERCHANTS' ASSOCIATION OF NEW YORK.

Mr. SIMON. The Merchants' Association of New York organized, as Mr. Miller stated, a committee to look into the housing situation, and the result of that committee's deliberation was that all of these very interesting things you have heard here this morning about the

farms and the local rents in Washington and all the other extraneous matters brought us back to the one simple fact that everybody in the United States, barring nobody, man, woman, and child, knows there is a lack of housing in this country. I also know there is no construction going on, in proportion to what should be going on.

The Merchants' Association made up their mind there were two things necessary—three things: Labor, material, and capital, and that the capital was most necessary. You can not hire labor without it; you can not buy material without it. So it got down to the very simple proposition: How are you going to get the money to build houses, and it seems to me that is the one basic thing for this committee to consider, irrespective of everything else, because we know the ramifications are infinite. At any rate this is a step to get one end of it, but you can not say this solves it any more than I. Like a dog chasing his tail you are going in a circle, but you have to begin somewhere. We know capital is necessary; you gentlemen know housing is necessary in this city, so let us start out with that basis, and see if the Government is going to suffer. If the Government is not going to suffer and you gentlemen can bring out liquid money to start housing, and if housing is necessary let us go to it.

And that is the way the Merchants' Association views this situation, and that is the way we would like to have you gentlemen focus your minds on this question—is there a housing question; is money the chief requisite (can you do anything in housing without money); and if it is, is the Government going to suffer the loss of one cent by exempting $40,000 of mortgages so as to get housing back? You gentlemen may not recognize it, but less than one-third of the money that goes into mortgages in the United States comes from institutions; two-thirds of it comes from individuals. I am glad the gentleman from New Jersey is here, because you seem to think it is the high rate of interest. The money we are seeking to get can not avail itself, in most instances, of 8, 9, and 10 per cent interest, because it is money put out by executors and trustees, who are regulated by the usury law, which in New York is 6 per cent. They are not allowed to go into speculative forms of investment; they are only allowed to go into certain forms of investment. The individual we are trying to get to put his money back into mortgage is the man who takes a certificate in a large mortgage or the man who takes a mortgage of six or seven thousand dollars. He knows nothing about trade acceptances. The Government is spending thousands of dollars to-day in educational work to keep people from putting their money into 9, 10, and 20 per cent investments, and advising them not to sell their Liberty bonds, but to buy Liberty bonds and not to buy other things. And while we are advising them to do that, what are the savings banks doing? The savings banks are sitting back and saying: "Yes; we will give you a mortgage on this piece of property. How much do you want?" "I want $50,000." "We will loan you the money if you will take $50,000 in Liberty bonds at par, and we will give you a mortgage." That is how they are getting around the usury law.

Mr. BACHARACH. Aren't you just confirming my contention that they are investing in these securities that pay a high return? You were saying they could not take advantage of the usury laws.

Mr. SIMON. They are getting around it. They are the only ones in the market that know it. They are not taxed; they sit back and dump the Liberty bonds on the market.

Mr. TREADWAY. Do I understand you to say if a man goes to a savings bank and asks for a real-estate mortgage of $50,000, he is asked by the bank to take that in Liberty bonds at par?

Mr. SIMON. He is not asked; he is told he can not get the money unless he does. I have been told three times in New York City myself in the last month. It is paying a 5 per cent bonus; that is what it amounts to.

Mr. TREADWAY. You take the Liberty bonds at par?

Mr. SIMON. You take the Liberty bonds at par and go out in the market and sell them and get your money and you pay a 5 per cent bonus for a 5-year loan, besides paying the lawyers and searching fees and everything else.

Mr. BACHARACH. When money was easier you did not have any difficulty in placing mortgages in New York City or elsewhere, did you?

Mr. SIMON. Yes; we have not had but 60 days or 90 days of a good mortgage market in the last six years.

Mr. BACHARACH. Prior to the last six years, when money was more plentiful, when it was bringing 3 or 3½ per cent on the exchange, you did not have any difficulty in placing mortgages?

Mr. SIMON. There was never a time when we could not put a good real estate mortgage out. As has been stated here this morning, Hetty Green always had millions of money to put out in mortgages.

Mr. BACHARACH. But she always wanted a 5 per cent bonus?

Mr. SIMON. She never wanted a bonus; she wanted the interest.

Mr. BACHARACH. But did not the agents want a bonus?

Mr. SIMON. They got their commission.

Mr. BACHARACH. They got an extraordinary commission?

Mr. SIMON. Please do not get away from the issue. Are you trying to convince me there is a lack of housing?

Mr. BACHARACH. Oh, no; I am talking to you about trying to bring money into the mortgage market, and I do not believe you can do it by this act.

Mr. SIMON. We can not prove it until we try it. I will say this, as to your saying perhaps the Government won't exact that legislation——

Mr. BACHARACH. I did not say they would not.

Mr. SIMON. I say perhaps they would not, the burden of proof is on the other side. I know what I can do with my money; I know I can take my money, if I have $40,000 to invest, and I can buy Liberty bonds and perhaps may be able to buy farm-loan bonds and municipal bonds. And I know, too, that under the laws of many of the States the executor who has money to invest, does not have to put the money into a real estate mortgage. But the real estate mortgage naturally is a different investment from any other you can make; there is no element of speculation and no market for it.

Mr. BACHARACH. And when Liberty bonds get to be worth what they should be, selling at par, then the people will go to purchasing real estate mortgages; that is my judgment.

Mr. SIMON. If by that time you have not a revolution in this country.

Mr. BACHARACH. There is not anything more sensitive than money?

Mr. SIMON. That is right.

Mr. BACHARACH. You say if we do not pass this act, we will have a revolution?

Mr. SIMON. Yes—not if you do not pass this measure, but I mean to say the housing question is at the root of the unrest in this country to-day. I mean to say the $500,000 that the Merchants' Association is raising in New York City to-day to fight the trucking situation is largely due to the fact when the man comes home he has not a place to go. He has a home that is a miserable place, and because there is a lack of supply and his rent is high, he is unhappy. His costs are high; there is nobody to do anything for him, no relief. He has been bamboozled by the New York State Legislature by rent legislation, which was nothing but a fooling of the public. It does not solve the economic problem; it has not created housing. You can choke rents down and do anything you please, but you are not going to solve this question until you increase housing.

Mr. BACHARACH. That is absolutely true.

Mr. SIMON. Aside from the shortage of the housing you have in this country, no one so far has discussed the question of immigration. Do you watch your reports? Do you know what happens? Do you realize in the last six months 151,000 people came in and 152,000 went out. We will say for the moment that balances the sheet; but do you realize—in last night's Evening Post I saw an article that Ellis Island is crowded. They are beginning to come in, and the reports to the Merchants' Association show that one association is bringing 2,000 people a week from Poland over here. They are farmers. Those are people we want. But they have to be housed. What is the use of talking about 16,000 farm houses vacant in New York State. Suppose there are 50,000 vacant. They would only take care of 150,000 people. It is a flea bite, when we are talking about 1,500,000 houses short.

Mr. FREAR. That is true in Michigan and in every other State.

Mr. SIMON. Absolutely. And I will prophesy you are facing at this moment a crisis in this country, due to your housing. The people in this country are sane, quiet, calm, and law abiding; they are hard working people if they see someting is being done for them. We realized that and you saw what was done during the war. They tried to get theirs, and it was put over on them. The thing we have to do is to give encouragement. Let us say the Government is exempting all mortgages for farms. All right now, the courts are going to question its right to do it; but the Government is at least going to show it is trying to do something to help. You ask will the building of housing go on. If you gentlemen will give us $40,000 exemptions so that I can place my mortgages in New York City, I can tell you now of 300 houses I have been consulted about, that people are ready to erect. They have been pounding the pavements in New York City——

Mr. LONGWORTH. How much will they cost to build?

Mr. SIMON. The house is to be a six room hourse, to cost less than $9,000.

Mr. LONGWORTH. A brick house?

Mr. SIMON. A frame house. It is within 28 miles of the city.

Mr. LONGWORTH. About how much a cube?

Mr. SIMON. I could not tell you; I have not figured it that way. We have pounded the sidewalks, and there is only one institution in New York City that says it is ready to make the loan. That is the Metropolitan Life Insurance Co. But Mr. Staples showed me a stack that high on his desk and said, "I am swamped, I can not carry the whole country." You have gentlemen here, such as Mr. Miller and Mr. Bright, and as Mr. Kelsey said, they are between the capital invester and the borrower. Their business is to make mortgages. They make it a business of guaranteeing the loans and attending to the details, and they will tell you what the tendency of the people is. They all tell me "This is the kind of investment we want to get; we do not want to get 9 and 10 per cent."

Mr. WATSON. If you go to a building and trust company and ask for a loan, what value is put on the building; the value of it in 1914, or the actual cost to-day?

Mr. SIMON. I think they try to strike a happy medium; I think they realize they will never get back to 1914 costs.

Mr. WATSON. Then if any companies were to offer you a loan of money, they would offer a less percentage would they not? For instance, on a building that costs $9,000, how much would you ask for a loan on that house?

Mr. SIMON. If the building cost $9,000?

Mr. WATSON. Yes.

Mr. SIMON. It depends on what the land value is.

Mr. WATSON. When you speak of a house costing $9,000 what does it actually cost to build?

Mr. SIMON. This is a matter where the house is to cost $7,500 and the land $1,500.

Mr. WATSON. How much of a loan do you want?

Mr. SIMON. $4,500.

Mr. WATSON. You want a loan of $4,500?

Mr. SIMON. We want a loan of $4,500, and we are ready to go through with it and can not get it. And that is the situation. The house is ready—the plans are ready and the organization—and they are ready to go ahead, and the lands have been made free and clear.

Mr. WATSON. What was the value of your house in 1914?

Mr. SIMON. I should say about $5,500.

Mr. WATSON. Then there is not very much margin for the man who loans the money, if you take the value in 1914?

Mr. SIMON. With the facts Mr. Kelsey has given you that are made by your own Department of Labor, that we are 3,000,000 houses short——

Mr. WATSON. In 1914 they probably would have loaned you $3,000, would they not?

Mr. SIMON. I do not like to get into this extraneous discussion, but I want to answer you. If you will keep your books on real estate to-day the same as the merchant keeps his books, you will have no trouble. You take the increased cost of construction, and you of course have to get an increase in rent. You can not expect to put up a building and lose money on it. You charge that increased rent and amortize your building long before the cost of construction and material and labor has dropped enough to affect your security, and you will be caught up with the fellow with whom you are going to have to compete.

Mr. BACHARACH. You make the statement that the building that in 1914 cost $5,500 you are building to-day for $7,500?

Mr. SIMON. The land and building.

Mr. BACHARACH. I mean the building itself.

Mr. SIMON. The building itself could have been built for $4,500 against $7,500 now. And do not forget, too, gentlemen, that 90 per cent of the cost of building is labor.

Mr. WATSON. Would you have any trouble in borrowing money to the extent of $3,000 on a building costing $4,500?

Mr. SIMON. Yes; we would have just as much trouble, and there is the best proof—it is just a question that the money is not available. We go from place to place: "We have no money to loan on mortgages; we are buying Liberty bonds; we are buying municipals; we are putting our money in this or that; we are not buying mortgages—we are buying railroad bonds, which are selling at 70 and maybe will go to par.

Mr. BACHARACH. You could place those mortgages if they could make enough premium?

Mr. SIMON. You can. Of course, you know, if I went out for 20 per cent money I could get it?

Mr. BACHARACH. I do not mean 20 per cent.

Mr. SIMON. You can not do it with an executor or trustee, because it is usury, and he is not allowed to charge more than 6 per cent.

Mr. BACHARACH. You said he was not allowed to do it, but at the same time he is doing it.

Mr. SIMON. Not the executor or trustee. I said the savings banks.

Mr. TREADWAY. How general is that being done by the savings banks?

Mr. SIMON. I should say pretty generally. I do not think there is much exception. I guess they are all doing it, all that think of it. There may be a few asleep that are not.

The CHAIRMAN. Would you recommend that this bill be so changed that the loans be exempt only where the total loan on a piece of property does not exceed $40,000. Would that meet your views?

Mr. SIMON. I would say offhand that it does not, for the reason that the danger—you can not separate mortgage money very well, and if you begin to exempt $40,000 for mortgages, then the $50,000, the $60,000, the $100,000, and the $200,000 mortgage will be called in order to be reinvested as nontaxable money and you are apt to present a worse situation.

The CHAIRMAN. Is it not true that the man who borrows money to build a home does not build many homes in excess of $40,000 in cost?

Mr. SIMON. There are a very few. But you could not put any multifamily houses up to-day for $40,000—the apartment house—and that is going to go a long way to solve the proposition. You can not build a brick building five stories high——

The CHAIRMAN. You would have to build single homes.

Mr. SIMON. Exactly; and you have to build apartment houses, because that is going to be the biggest help to the larger cities.

The CHAIRMAN. And you can not build an apartment house for that?

Mr. SIMON. No.

Mr. PARISH. One of the gentlemen representing the largest company or organization engaged in the production of small houses in the Borough of Brooklyn is the vice president of that organization, Mr. William M. Greve, I think his business exceeds that of pretty nearly all the other organizations together.

STATEMENT OF MR. WILLIAM M. GREVE, BROOKLYN, N. Y.

Mr. GREVE. We have constructed within the last year and have now under construction approximately 400 houses.

The CHAIRMAN. What is the average cost?

Mr. GREVE. They begin at about $3,600 apiece. The bulk of them run from $3,600 to $6,500 apiece. They are the year-around house, the smaller ones. They run up to as high as $20,000. Those houses are two-family houses. We have consturcted no flats. We have one development that appeals to the very moderate salaried man where we are constructing 250 houses and the selling price of those houses will not run, as I said before, over $3,600 to $6,500 apiece. On those 250 houses, we have secured 38 loans. They are, taken as a whole, about 95 per cent completed and we have had applications in most of the savings banks and one of the title companies and, as yet, we have no loans and we are carrying that along with our own capital. Of course we can not afford to keep our capital tied up on a low rate of interest, because we have an overhead. We have curtailed all future building operations because of the money situation. If we can not get loans we can not build, and it is our intention to quit just as soon as our present operations are finished. We have got to finish of course what we started.

I have had some experience in selling morgtages (I am interested in a mortgage company in addition), and there is no doubt that we could sell a great amount of mortgages or mortgage certificates if they were exempt from the income tax. There is no doubt about getting capital if we had that exemption. As Mr. Simon said, I can get the money if we want to pay for it; but if we have to pay for it, we have to add that to the cost of the buildings, and I do not think they will stand any further burden such as 10 per cent. I do not believe you could get a large amount of mortgage money to-day on better than 10 per cent. They are offered to us every day. In the last month or more, we have been offered mortgage after mortgage on a 10 per cent discount basis to purchase.

Mr. WATSON. Of what kind of construction is the $3,600 house?

Mr. GREVE. They are frame and the lower priced ones have no cellar. They have double floors, five rooms and bath, a kitchen and a range, of course.

Mr. WATSON. And electric lights and gas?

Mr. GREVE. Electric lights and gas, water and sewer.

Mr. WATSON. They are merely a shell?

Mr. GREVE. No; not a shell.

Mr. WATSON. They have no cellar; they are frame. They can not be very valuable houses. How many rooms have they?

Mr. GREVE. Four and five rooms.

Mr. LONGWORTH. What will they rent for?

Mr. GREVE. They will rent, the smaller ones, the lower-priced houses, for about $500.

Mr. WATSON. What is the loan you want on those houses?

Mr. GREVE. $1,750 to $2,000, on the lower-priced houses, up to $3,000.

Mr. WATSON. You say they are double houses?

Mr. GREVE. No; singles; they are a detached house, for all the year around living.

Mr. WATSON. What is the size of the lot?

Mr. GREVE. The size of the lot in this development is 40 by 50 or 40 by 45. The house is a square house, what we call the box house, and we have figured it out so as to get every available foot of floor space and no unnecessary wall space. And we have sold in that one development way ahead of the construction and completion; we have something like 207 of them sold.

Mr. WATSON. They are houses built right on the premises?

Mr. GREVE. They are built right on the premises.

Mr. WATSON. What would those houses have cost in 1914?

Mr. GREVE. I do not know what they would cost in 1914, but I believe the increased cost of construction is something over 100 per cent.

Mr. WATSON. Then, you are asking for a loan of more than the house would have cost in 1914?

Mr. GREVE. No; because the lot——

Mr. WATSON. You are asking for a loan of $1,700 on a house which is only costing $3,500?

Mr. GREVE. I said the house and lot. That included the lot. This is a type of house they live in all the year around. They have been a success because we have sold them to some people—we started this development last summer and about 60 of those were occupied during this winter, which was severe, and they were a success.

Mr. BACHARACH. Why not get a building and loan mortgage on the house which is to be sold to an individual?

Mr. GREVE. Because that is expensive, and if we wanted to go to that expense we would have to add it to our cost. Our problem is to sell quantity in houses.

Mr. BACHARACH. Is there any more expense to place a building and loan mortgage than there is any other mortgage?

Mr. GREVE. Oh, yes.

Mr. BACHARACH. Down our way it is less.

Mr. WATSON. What is the heat in those houses?

Mr. GREVE. They are heated by the American Radiator Co., which has a little steam boiler that they say you can put in the parlor. It is very clean and very unique and it costs about $240 a house. The radiation goes through two pipes and radiates into the various rooms.

The problem I want to ask you is, Where are we going to get the money? And if we do not get the mortgage money we have to stop and that means no more houses. Now we build and construct houses and have built in the past year more houses on a cheap scale than any 10 builders in the Borough of Brooklyn, which is the largest borough of the five boroughs of New York City and the home borough. If we can not get some relief, we have to quit; and not alone we can not go on, but we can do very much better with our money. I thank you.

Mr. PARISH. Mr. Chairman, about three weeks ago the mayor of New York appointed a housing commission. It is the third or fourth of that class of commissions that has been sitting on that question in New York City during this last year. They have all come to the same conclusion, that the one thing that was primarily necessary to solve this housing problem, not only for New York City but for the entire country, was the relief that this bill would give to the mortgage situation. Mr. E. P. Doyle was appointed the secretary of that housing commission and he brings to you to-day a message from the mayor of New York in relation to that question.

STATEMENT OF MR. E. P. DOYLE, SECRETARY OF THE HOUSING COMMISSION OF THE CITY OF NEW YORK.

Mr. DOYLE. The message is just this: In 1915, there were 938,000 apartments in the city of New York. On December 31, 1919, there were 982,000 apartments, an increase of 44,000 apartments in five years. The normal increase of New York City is about 125,000 people a year, requiring 25,000 new apartments each year, housing a family of five.

There was, of course, an abnormal increase during the last four years. The tenement house commission, whose letter I have here, estimates that 160,000 apartments are needed in New York City to-day—new apartments. These apartments consist of four rooms each and will cost, exclusive of the land, $4,000—$1,000 a room or $4,000 an apartment—making a total of $640,000,000, of which $560,000,000 perhaps will have to be borrowed, because the cost I have given you is exclusive of the land.

There are 60,000 apartments in the city of New York in which two families or more than two families are living, which is unhealthy and absolutely immoral. Out of 6,000,000 people in the city of New York, only 300,000 own their own homes, or own real estate and the mayor and his committee and the committees made up of 86 people taken from 12 groups interested in building, including also the public and the press, are convinced that this is an absolutely wrong condition of affairs. And the mayor said for me to tell you that he felt you gentlemen represent the 6,000,000 people of the city of New York, one-sixteenth of the people of the United States, just as much as he does and that you must yourselves realize that is a very alarming condition of affairs and anything you could do that would help to get the people to own homes in New York City, why you ought to do it.

I also represent the Real Estate Board of New York, which has letters here from all or nearly all the prominent attorneys in New York, who formerly loaned most of the mortgage money which we used and who are not loaning any now, and they desire me especially to express their gratification with the sentiments that have been uttered by the chairman of your committee during the last four or five months, in which he expressed himself as more interested in cutting out unnecessary functions of Government than he was in either conserving the present source of revenue or finding new sources of revenue.

Mr. PARISH. Mr. James Frank is the president of the New York State Association of Real Estate Boards, representing organizations in nearly every important city in New York State. I should like to have you listen to Mr. Frank for a couple of minutes.

(The letters filed by Mr. Doyle are as follows:)

CITY OF NEW YORK,
MAYOR'S HOUSING CONFERENCE COMMITTEE,
May 25, 1920.

COMMITTEE ON WAYS AND MEANS,
House of Representatives, Washington, D. C.

GENTLEMEN: As tenement-house commissioner of the city of New York, and especially as chairman of the mayor's housing conference committee, which latter has been formed to find ways and means to increase the much-needed housing facilities of the city, I am gravely concerned about the ability of the committee to induce investment capital to enter the building field unless something affirmative and aggressive is done. I am convinced that a majority of those who are possessed of an expert knowledge of the matter are in accord with me that one of the essential things to be done to aid the situation and induce investment capital to enter the building field, is to exempt mortgages from Federal as well as State income taxes.

The opportunities offered to investment capital in the general market to purchase industrial, railroad, and even National Government bonds, producing a larger interest return, has practically driven mortgage money from the market, and unless an advantage is given mortgage investment capital, I am apprehensive of bringing about its return.

I respectfully submit that every effort should be made to induce Congress to pass a law to exempt mortgages accordingly.

Yours, truly,

FRANK MANN, *Chairman.*

REAL ESTATE BOARD OF NEW YORK,
New York, May 25, 1920.

Hon. JOSEPH W. FORDNEY,
Chairman Ways and Means Committee,
House Office Building, Washington, D. C.

DEAR SIR: Mr. Edward P. Doyle is authorized to represent the Real Estate Board of New York at the hearing on Wednesday, May 26, on the McLaughlin bill (H. R. 8080), to encourage the building of homes by providing for exemption from taxation of the income of mortgages on real estate.

The Real Estate Board of New York believes that the situation growing out of the taxation of the interest on mortgages under the Federal income tax law is so serious, because of the inability of real estate to compete with tax-free securities, that such mortgages should be entirely exempted from the provisions of the said law.

The tax above referred to is causing the withdrawal of funds from real estate and preventing the loaning of new funds.

Under the existing critical situation caused by the housing shortage throughout this country, the continued taxation of the income from mortgages is, for the reasons stated, indefensible. Its effect is felt not only by investors, but far more seriously by the public, who, as tenants, suffer personal discomfort and financial loss because of the tax.

Mr. Doyle will further set forth the arguments for this board, not only in favor of the principle involved in the McLaughlin measure, but for extending the exemption therein proposed so that it include the principal sum of all mortgages.

Respectfully, yours,

RICHARD O. CHITTICK,
Executive Secretary.

CARTER, LEDYARD & MILBURN,
COUNSELLORS AT LAW,
New York, April 19, 1920.

RICHARD O. CHITTICK, Esq.,
Executive Secretary, Real Estate Board of New York,
New York City.

DEAR SIR: In reply to your letter of April 15, I would say that my experience is that mortgage money is each day becoming more and more difficult to obtain. I feel no doubt that this is due in a large measure to continued and increasing taxation.

During the last year the State of New York has added a tax on interest from mortgages in addition to the tax theretofore collected by the Federal Government, and the heavy surtax imposed on interest upon mortgage investments is a fatal handicap so far as individuals and estates are concerned, preventing them from investing large amounts of money in mortgages; such investments can only advantageously be made at the present time by exempt institutions.

Very truly, yours,

EDMUND L. BAYLIES.

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54 WALL STREET,
New York, April 17, 1920.

RICHARD O. CHITTICK, Esq.,
Executive Secretary, Real Estate Board of New York,
New York City.

DEAR SIR: In reply to your letter of the 15th instant, in our view the withdrawal of mortgage money is almost entirely due to present methods of taxation, and total exemption of interest on mortgages would unquestionably, we think, relieve present conditions in the mortgage loan situation.

Yours, very truly,

BUTLER, WYCKOFF & CAMPBELL.

NEW YORK, *April 17, 1920.*

RICHARD O. CHITTICK, Esq.,
Executive Secretary, Real Estate Board of New York,
New York.

DEAR SIR: Your letter of yesterday is received in which you ask our views as to the probable effect on the real estate market of the passing of exemption bills which should grant total exemption of the interest on mortgages from the provisions of the State income tax; also as to the effect if the Federal Government would grant similar exemption.

The New York State income tax is now relatively low as compared with the Federal income tax. The exemption of mortgage interest from the State tax would, no doubt, help to make mortgage money available, but whether this would go far enough to really affect the mortgage market is a question. But if the interest on mortgages were exempted from the Federal income tax it would undoubtedly have a material effect on the situation, for it would make such mortgages as attractive in respect to tax questions as municipal bonds are, and this would undoubtedly make available for mortgages large sums which are now invested in municipal bonds bearing lower interest than is now paid on mortgages.

Very truly yours,

LORD, DAY & LORD.

NEW YORK, *April 19, 1920.*

REAL ESTATE BOARD OF NEW YORK,
City.

DEAR SIRS: We acknowledge receipt of your circular letter of the 15th instant, and in reply beg to state that we have found that our clients are desirous of withdrawing the money that they have outstanding in mortgages, due to the small return that same net them. In our opinion a legislative enactment exemption interest on mortgages from provisions of the income tax, both State and Federal, would be beneficial and would to a large extent encourage the loaning of money on mortgages.

Yours, truly,

ALEXANDER, COHN & SONDHEIM.
By H. J. SONDHEIM.

NEW YORK CITY, *April 19, 1920.*

Mr. R. O. CHITTICK,
Executive Secretary Real Estate Board, New York.

DEAR SIR: Replying to your letter of the 15th instant, a considerable amount of mortgage money has been withdrawn from the market by our clients because of unfavorable tax legislation. On payment of mortgages the proceeds are being invested in other securities. In my opinion the exemption of mortgage interest from income tax would attract a considerable amount of money for mortgage investment and, through the consequent encouragement to building, would directly aid in relieving the present housing situation.

Yours, very truly,

GEORGE R. COUGHLAN.

New York, *April 19, 1920.*

Mr. Richard O. Chittick,
Executive Secretary Real Estate Board of New York,
217 Broadway, New York City.

Dear Sir: Replying to your inquiry under date of April 15, it is our judgment that mortgage money is being rapidly withdrawn from real estate on account of competition with other securities enjoying exemption from income taxation, partial or total. We have personal knowledge of instances in which clients have actually paid for the privilege of being permitted to anticipate maturity of mortgage, so that by conversion into other securities, they might enjoy larger net income. Naturally, the effect of any legislation granting exemption from income taxation of interest on mortgages could not fail to be beneficial to the mortgage market, although we feel that some of the money which has been attracted away from that market would find its way back only slowly, if at all We feel that State legislation on the subject will accomplish very little, unless similar legislation is obtained from Congress. It is certainly significant of the temper of the times that of all the legislation in this State proposed to alleviate housing conditions, the only measure that has failed of passage is that one designed to aid the mortgage money market, which is so essential to the resumption of building.

Very truly, yours,

M. S. & I. S. Isaacs.

New York, *April 19, 1920.*

Real Estate Board of New York,
City.

Dear Sirs: We have your letter of April 15, 1920, in which you state that it is generally believed that mortgage money is being withdrawn rapidly from real estate on account of heavy taxation and ask us to state:

1. We have been instructed by a number of our clients to require payment of mortgages aggregating approximately $1,000,000 because of the desire to invest in securities offering a larger income return to offset the income tax. Our experience in closing loans secured by real estate mortgages for financial institutions which we represent, satisfies us that ours is not an isolated case, but is symptomatic of a general condition.

2. The effect of legislation exempting interest on mortgages from the State income tax would be to make more money available for that class of investment provided the exemption be not limited to any particular amount of mortgages. It would, in our opinion, attract investors to mortgages if it were supplemented by similar legislation on the part of Congress.

3. Our answer to your question 2 is almost a sufficient reply to question 3. Exemption from the Federal income tax, both normal and surtax, would, of course, bring much more money into the mortgage market than exemption from the State tax alone.

We wish to add that we can see no valid reason for discrimination between mortgages on farms and mortgages on city realty. This discrimination exists because of the exemptions of Federal land banks and national farm loan associations from the Federal income tax.

We have no sympathy with a movement for a partial exemption of mortgages because we are convinced that a partial exemption would not alleviate the existing housing conditions. Something must be done, and done promptly, to induce investors to put out money on mortgages, for without mortgage loans no new building operations can be undertaken, and new buildings are the only possible solution of the housing difficulties.

Yours, truly,

Amend & Amend.

New York, *April 16, 1920.*

Mr. Richard O. Chittick.
Executive Secretary Real Estate Board of New York,
217 Broadway, New York City.

Dear Sir: Answering your inquiry of the 16th, my experience is:

1. That mortgage money is being steadily and rapidly withdrawn from real estate on account of the excess-profits tax. There are a number of small investors who have never carried anything but real estate mortgages who still think that that is the only proper investment for them. It seems likely that it is only a question of a few months when they will discover that better rates can be obtained with equal security from other investments.

2. The effect of exempting interest on mortgages from the State income tax will be practically nil. On a 6 per cent mortgage for $40,000 at the present 1 per cent rate the exemption would amount to $24 per year. This is insignificant.

3. If the State exemption resulted in a similar exemption by the Federal Government from the excess-profits tax, the favorable effect on real estate mortgage market would be very marked.

Very truly, yours,

A. B. Carrington.

New York, *April 16, 1920.*

Mr. R. O. Chittick,
Real Estate Board of New York,
217 Broadway, New York City.

Dear Sir: In reply to your letter of April 15, would say that we think it would be a distinct advantage to real property and tend to reduce the high cost of rentals if both the Federal and State income taxes on mortgages were repealed. We doubt very much whether the repeal of the State tax alone would have a great deal of effect.

Very truly, yours,

S. Stanwood Menken.

New York, *April 16, 1920.*

Mr. Richard O. Chittick,
Real Estate Board of New York,
217 Broadway, New York, N. Y.

Dear Sir: Replying to your circular letter of the 15th instant, I beg to say:

1. For various reasons clients for whom we have previously made mortgage loans are requiring payment of these loans. The principal reason is the heavy taxation.

2. Repeal of the State income tax as to interest on mortgage loans would have little effect.

3. Some of our clients would continue their mortgage loans if they were freed from the payment of a Federal tax on the income from these loans.

Yours, very truly,

A. S. Ridley.

April 17, 1920.

The Real Estate Board of New York,
217 Broadway, New York City.

Gentlemen: Replying to your circular letter of the 15th instant concerning exemption of real estate mortgages from income taxation, we beg to express an opinion as follows:

It has been our experience for many years past to represent a great number of persons acting individually and in representative capacities, who favored real estate mortgages as an investment above almost any other kind of security. Recently a great number of these, in fact a number large enough to have already created quite some comment among the members of our firm, have been refusing to extend the time of payment of the mortgages which they hold insisting that due solely to the income taxation they could not afford to allow their money to be invested in mortgages. We have on several occasions discussed this matter with investors of this type and the opinion seems to be general that when one can buy tax-exempt securities of high grade, most of which have governmental guaranties, if not actually governmental obligations, and receive an interest rate of approximately 5 per cent on par, real estate mortgages, which afford but little greater interest, and which interest is in many instances subject to a high rate of taxation, are considerably less desirable. In addition to the foregoing, it must be borne in mind that the securities mentioned can be bought upon such a basis that if held until maturity or until such time as general conditions return to normal a very appreciable profit in addition to the interest rate will be secured to the investor and this profit will very probably be made in the future at a time when the income-tax rate is considerably lower than it is at present;

The recent furor concerning high rents and the results thereof arises in great measure by an excess of demand for space over the supply of space available, and consequently a new construction furnishes the only logical remedy, which new construction, however, must be assisted by the usual building loans or, at least, by the ability of the owner to secure mortgages upon the property when completed. If then, at a time when the prevailing interest rate is approximately 7 per cent on high-class investments, which investments are subject to ready realization upon a day's notice, an investor is approached for a loan to be secured by mortgage, the interest rate of which

can not legally exceed 6 per cent, but which is most often 5½ per cent or less, and furnishes an investment which is not by any means liquid in the sense that it can be readily realized upon within a short time and offers no speculating opportunities for a profit, the decision of the investor must necessarily be adverse to the mortgage. The foregoing example is rendered all the more pointed by the fact that securities entirely tax exempt under Federal taxation yield to-day in many instances 5 per cent to 6 per cent, whereas from the mortgage interest there must be deducted the amount of the income tax.

It does not seem to us that an exemption of mortgage interest from the State income tax alone would furnish any real benefit under the present low rate of taxation: but an exemption from Federal income tax, or possibly an exemption from inheritance tax, both Federal and State, might afford a considerable benefit. In this regard, however, we foresee a certain amount of difficulty, owing to the fact that almost all bond issues dealt in as securities are merely another form of participation in real estate mortgage security; that is to say, a corporate mortgage upon the real estate, franchises, etc., of the corporation is granted to a trustee, which trustee thereupon issues bonds which are in a sense praticipation certificates. For this reason, as we presume you have already foreseen, a plan should be prepared excluding trust mortgages which are underlying security for corporate or other bond issues.

Yours, truly,

Rose & Paskus, *Attorneys.*

New York, *April 16, 1920.*

Richard O. Chittick,
Secretary Real Estate Board of New York,
217 Broadway, New York City.

Dear Sir: I am to-day in receipt of your favor of April 15, in which you have been good enough to ask my opinion on questions regarding investment in mortgages located in New York.

In reply, I beg to say that after an experience of 35 years, in which I have been investing moneys belonging to trust estates and individuals in bond and mortgage, I have entirely discontinued this character of investment. The chief reason, perhaps the only reason for this action, is the question of taxation. A few years ago, we seriously considered the discontinuance of loaning on bond and mortgage on account of the imposition of the personal estate tax, but that was remedied by substituting a recording tax. At the present, we can not afford to invest in these securities solely because of taxation.

I am of opinion that if New York State would enact legislation granting total exemption of interest on mortgages from the provisions of the income tax, the situation would be materially improved, but not sufficiently as to attract money in any volume. I think that it is essential either that the legal interest rate should be increased from 6 to 7 or 8 per cent or that the Federal income tax should also exempt from taxation mortgage income.

It has seemed to me that to limit the exemption to interest on mortgages of under $40,000 is useless, for the reason that only large estates or wealthy individuals own large mortgages, and such income is therefore subject to high surtax rates. Estates or individuals loaning on mortgages for small amounts are not, as a rule, subject to the surtax.

I might say further that not only have I discontinued loaning on bond and mortgage but that I have also called for payment a large number of mortgages held and which have been overdue for many years.

Another point affecting this mortgage question, although not mentioned in your letter, is the attitude of the State in legislation upon tenancies. The hysteria has gone so far that no discrimination is made between a just landlord and the speculative profiteer. Under no circumstances could I advise an investor to loan on bond and mortgage with a chance of having to buy in the property on foreclosure.

Yours, truly,

Harris D. Colt, *Counsellor at Law.*

New York, *April 16, 1920.*

Mr. R. C. Chittick,
Executive Secretary Real Estate Board,
217 Broadway, New York City.

Dear Sir: In reference to your circular letter of April 15, 1920, on the point that mortgage money is being withdrawn from real estate on account of heavy taxation, I would state that in my opinion based on personal experience about 80 per cent has been so withdrawn; in other words, there is only about one-fifth of the available mortgage money that there would be were it not for such taxation.

I have been compelled to call many mortgages where the amount of the security was from two to three times the amount of the mortgage and where the interest return was sometimes as large as 5½ per cent, because, for my client, by reason of such taxation, there would only be left from 2½ per cent to not exceed 3½ per cent.

The money so called on such mortgages, I know of my own knowledge, was immediately reinvested in tax-exempt securities.

If the State and Federal Governments made mortgages, regardless of size of such mortgages, tax exempt, on the one hand I would not be compelled to call the mortgages that I am now calling, and on the other hand, the owners of these very mortgages so called, would be only too glad to invest in mortgage securities, so exempted.

In my opinion if mortgages were made tax exempt by the Federal and State Governments, there would be available all the money necessary to put up houses to relieve the present housing conditions despite the present high prices of material and labor.

Yours, very truly,

Chas. M. Cannon.

New York, *April 16, 1920.*

Real Estate Board of New York,
217 Broadway, New York City.

Gentlemen: Replying to yours of April 15, regarding the removal of a tax upon mortgages, we beg to submit the following answers:

In regard to the first question, it is our experience that mortgage money which is now becoming due is not being reinvested in mortgage security, and that this situation exists to considerable extent.

Secondly, it is our opinion that all taxes on mortgages should be lifted, so that money would flow into channels where it is sorely needed.

For this purpose we think that mortgages should be exempted from the provision of the State tax income and the Federal Government should provide a similar exemption.

Very truly, yours,

Covington, Tompkins & Moesel,
Counselors at Law.

New York, *April 16, 1920.*

Real Estate Board of New York,
217 Broadway, New York City.

Gentlemen: Your letter containing inquiry regarding effect of tax on income from real estate mortgages is before me, and in reply can say that the present State tax is only considered a preliminary to the imposition of a much higher one.

A large part of my business consists in making mortgage-loan investments for clients, and it has been my experience that the present State and Federal taxes act as a deterrent beyond any doubt.

The removal of the two taxes would greatly stimulate loans of the character inquired about and reduce the rate of interest.

Yours, very truly,

Peter Cook, *Counselor at Law.*

New York, *April 16, 1920.*

Mr. Richard O. Chittick,
Executive Secretary, 217 Broadway, New York City.

My Dear Sir: In answer to yours of April 15 as to the present condition of the mortgage market, I would say that in the past few months approximately $500,000 has been invested through my office in securities other than mortgages, which in the ordinary course would have gone into mortgages.

The underlying reason for this has been the heavy taxation carried by money invested in mortgages covering real estate. The State income tax and the Federal

income tax have proved to be so heavy a burden on mortgages on real estate that my clients feel it necessary to withdraw their money from this form of investment.

The only relief that I can see is either to permit an increase in the rate of interest on mortgages over 6 per cent or exempt mortgages entirely from income-tax burdens. In my opinion the present housing condition has been largely influenced by the difficulty in placing mortgage loans on real estate. The individual lender is practically eliminated from the market.

Yours, very truly,

WILSON M. POWELL.

NEW YORK, *April 16, 1920.*

REAL ESTATE BOARD OF NEW YORK,
217 Broadway.

DEAR SIRS: Answering the inquiry contained in your circular letter of the 15th instant, I would say that to my mind there can be absolutely no question but that money is being withdrawn from mortgage investment on real estate. In previous years I have invested a good deal for clients, but, in the last year or two, practically nothing. The exemption from income tax would, in my opinion, have a very appreciable effect on the mortgage market in this city.

As the matter stands to-day, it would appear that any person paying a surtax would secure as good a return on Liberty bonds as on a 5½ per cent mortgage. That being the case, the persons subject to surtax are naturally not going to take mortgage investments and this removes a very large number of investors.

Very truly, yours,

SAMUEL T. CARTER.

NEW YORK, *April —, 1920.*

REAL ESTATE BOARD OF NEW YORK,
217 Broadway, New York City.

DEAR SIRS: Replying to your letter of the 15th instant, from my observation it is my opinion that mortgage money has been withdrawn from the market for the following reasons:

1. So far as concerns individuals and trustees, having power to make such investments, a larger net income can be obtained from preferred stocks and other stocks, and also from many good bonds which are selling at a low price, and as to the latter with a reasonable hope that there will be an appreciation in values. As to stocks, these forms of investment have the advantage of the payment of the normal Federal tax by the corporations and to a certain extent this applies to income derived from bonds.

2. The low prices of United States bonds, combined with the exemptions, have proved a much more attractive investment for trustees, as less trouble is involved in obtaining income, such as questions of insurance, real estate taxes, and depreciation of security; there is also the expectation of an increase in the principal when conditions become more normal. These bonds are also a more attractive form of investment to individuals with large incomes

In regard to the further questions as to the effect of exemptions by the State and Federal Government, I think there is no question that many investors would be attracted by them, especially if the income thus derived would be equal to or greater than that derived from Government bonds and corporate investments, and for the further reason that in my experience it has seemed there are a very large number of people who feel much more secure in the investment of their moneys in a mortgage upon an individual piece of real estate, and this is true to some extent with participations; there is a preference by such persons for an investment where to a large extent it is entirely under their own control and not subject to corporate mismanagement, or the effect of every increasing taxation and regulation, and perhaps the further effect of every increasing taxation and regulation, and perhaps the further effect of competition.

There is no question that, with the increase of taxes and the higher cost of living of every kind, the average citizen studies the question of investment with perhaps a higher interest in the return than he does in the absolute safety or desirability of the investment and is willing to take greater chances than in former times.

I presume that the exemption of $40,000, would also apply to participation in a larger mortgage, for at the present time, I understand it would not be possible to make any profitable apartment construction with a mortgage of $40,000.

In view of the feeling among many people that the income tax imposed by the State on income derived from mortgages is a violation of the intention and understanding of the statute providing for exemptions by the existing recording tax law, it would be well to have in view in framing any law that it should express an intention to exempt the income of mortgages up to the limit prescribed from all taxation for at least a definite period, say of five or ten years, or in respect to mortgages made during five years and extending the exemption to the date of maturity.

Yours, truly,

FREDERICK J. MIDDLEBROOK,
Counselor at Law.

NEW YORK, *April 17, 1920.*

REAL ESTATE BOARD OF NEW YORK,
217 Broadway, New York, N. Y.

GENTLEMEN: Replying to your questionnaire of April 15, it is our experience that clients of this office are withdrawing mortgage money from real estate investments as rapidly as possible, because the yield from other no less secure investments is considerably greater, particularly in view of the burden on an investor in mortgages, which requires such investor to collect his own interest and watch the payment of the taxes, water rents, and assessments against the mortgaged premises.

In our opinion, if the State enacted legislation granting total exemption of the interest on mortgages from the provisions of the State income tax it would improve the situation slightly, because the State tax is now at a comparatively low rate. If the State income tax rates become higher, the benefit of the exemption will be felt correspondingly more.

If the Federal Government would grant a similar exemption to interest derived from mortgage investments, the effect would be very beneficial. The net yield from the income derived from mortgages would then be as easily ascertainable as the net yield from municipal and State bonds now is, and mortgage investments would stand on the same advantageous basis that such other securities hold.

Yours, very truly,

GOLDSMITH, COHEN, COLE & WEISS.

APRIL 17, 1920.

REAL ESTATE BOARD OF NEW YORK,
217 Broadway, New York City.

DEAR SIRS: We beg to acknowledge receipt of your letter of April 15, 1920, in which you ask to what extent mortgage money is being withdrawn from investment by reason of taxation.

In answer to this we can say that it is our experience that owing to the heavy income tax imposed by the State and Federal Governments our individual clients have withdrawn all money from investment in mortgages. In many cases we have advised them, especially in the case of nonresident lenders, that this was the only thing for them to do from a business standpoint. We have clients who live in England who have to pay the British income tax as well as our own, and we have used every effort to call in all mortgages held by them and have succeeded in doing so and none of this money has been reinvested in the United States. If both the State and Federal Governments enact legislation exempting the income received from mortgages from taxation and if the present exemption of mortgages from liability to the personal tax is continued, we think that there would be a much larger fund of money seeking investment in the mortgage market. This in its turn would stimulate building and eventually bring about a decided improvement in the housing situation.

Yours, very truly,

HARRISON ELLIOTT & BYRD.

NEW YORK, *April 17, 1920.*

DEAR SIR: We are in receipt of yours of the 15th instant. In reply to the questions which you ask: Since the time when the Federal income tax was largely increased our clients have loaned but very little money upon mortgage; in fact, practically none as compared with the time before the income tax was established. They have also shown a strong tendency to close out their mortgage holdings and have not cared to extend their mortgages even at comparatively high rates of interest, as they claim it does not pay them to do so. The addition of the New York State income tax has, of course, merely intensified these conditions.

We consider that if mortgages should be exempted from Federal and State income taxes the present views of lenders concerning mortgage investments would be very materially altered in favor of that form of investment.

Yours, very truly,

FOSTER & THOMSON.

RICHARD O. CHITTICK, Esq.,
Executive Secretary Real Estate Board of New York,
217 Broadway, City.

APRIL 16, 1920.

REAL ESTATE BOARD OF NEW YORK,
217 Broadway, New York City.

GENTLEMEN: Answering your favor of April 15, it has been our experinece that a deduction made from the return received from mortgage investments by reason of the income-tax laws of the United States and of the State of New York, have deterred many of our clients from making further investments in mortgage securities.

Other clients of ours have raised their rate of interest in order to receive an adequate return upon mortgages. We have in mind one client in particular who formerly loaned money at 4 per cent interest, but he is now demanding 5½ per cent in order to get the same return as formerly after paying his income taxes. I feel that the State of New York has morally repudiated the exemptions in the mortgage recording tax law. Although said law purported to exempt from all future forms of taxation mortgages upon which the mortgage recording tax had been paid, the State has been hiding behind the technicality that they are not taxing the mortgage debt, but the income derived therefrom. Of course, the net result to investors is the same. There is no doubt in our minds that if mortgage investments could be relieved from income taxes, leaving them subject only to the mortgage recording tax, and to no other form of taxation, the effect of this would be to invite large sums of money to this class of investments.

Very truly, yours,

CAMPBELL, FLAHERTY, TURNER & STROUSE.
W. IRVING TAYLOR.

NEW YORK, *April 16, 1920.*

REAL ESTATE BOARD OF NEW YORK,
217 Broadway, Manhattan.

Attention of Richard O. Chittick, Esq., Executive Secretary.

DEAR SIRS: We acknowledge receipt of yours of April 15 asking us the following questions:

1. To what extent is mortgage money being withdrawn from real estate on account of heavy taxation?

2. What in your opinion would be the effect on the real estate mortgage market if the State would enact legislation granting total exemption of the interest on mortgages from the provisions of the income tax?

3. What would be the effect if the Federal Government would grant similar exemption?

Answering your first question, would say that, for fifty years or more this firm and its predecessors have been large lenders of estate and other funds on first mortgages in the Borough of Manhattan. We have no hesitation in expressing our opinion to be that if some relief is not granted by both State and Federal Government from the present tax burden on interest from mortgages, that within a short time every dollar of mortgage money will be withdrawn from that form of investment as soon as such withdrawal is possible in view of the existing contracts. This office has constantly pursued the policy of refraining from foreclosing mortgages so long as the mortgagor showed an honest intention of meeting his obligations, and also so long as the mortgage's margin of security justified such withholding from foreclosures. Wherever mortgages have matured (since the imposition of the heavy taxes on income therefrom) we have by instruction of our clients almost uniformly requested payment of the loans with the intention of reinvesting in other forms of securities: and where mortgagors have been unable to pay off, we have secured such part payment as we could and extended for short terms as to the remainders of the loans. In practically no instance have we voluntarily made new mortgage loans or extensions of maturing loans, nor shall we voluntarily make the same as long as the present burden of taxation exists, nor do we see how the State or Federal authorities expect any sane citizen to seek such investment, especially as the highest legal rate of interest after deduction therefrom the

Federal and State taxes, leaves the investor with a net income perhaps lower than he could get from Government bonds and certainly lower than he could get from other forms of investments possessing equally satisfactory security.

Answering your second and third questions, we express the opinion that if both Federal and State Governments would exempt mortgage interest from income taxes investors who formerly showed a preference for mortgage investment would doubtless go back to that preference and continue to make mortgage loans.

Finally, we express the opinion that legislators, both Federal and State, seem to have gone tax mad since the war emergencies arose, and we also think that until some strong disapproval of the present maintenance of the war tax rates is shown by the public that the legislators can be counted on to do but little of their own motion to lower the war rates which taxpayers are even now paying at a time nearly two years after the war ended. We should like to see some State-wide and also Nation-wide movement started by the public (from whose pocketbooks the pork barrels of the politicians are filled) whereby every candidate for office would be compelled to declare himself in advance of election that if elected to the legislature he would do his utmost to secure the most rigid economy on the part of the legislature, and also do his utmost to reduce forthwith the present high rate of taxation.

Very truly, yours,

EVERETT, CLARKE & BENEDICT.
GEORGE M. CLARKE.

NEW YORK, *April 16, 1920.*

Mr. RICHARD O. CHITTICK,
Executive Secretary Real Estate Board of New York,
217 Broadway, New York.

DEAR SIR: In reply to your letter of the 15th instant, asking about the effect of existing taxation on the interest on mortgages by the United States Government and by the State, we have to say as follows:

For the most part our individual and estate clients are withdrawing money entirely from the mortgage market, as they can do as well or better on Victory loan 4¾ per cent bonds than they can on 6 per cent morgtages. The Victory loan bonds are naturally preferred, because they can be more easily borrowed on or sold.

So far as individual clients are concerned, they are buying high-grade railroad bonds, paying 7 per cent, or the best grade of preferred stocks, netting from 6 per cent to 7 per cent on investments, which stocks, of course, are free from normal income tax, as that is paid by the corporations.

If the existing laws taxing mortgages are not changed or legislation passed providing a higher rate of interest than 6 per cent, in my opinion practically all mortgage funds will be withdrawn, except by life insurance companies, savings banks, or institutions not subject to United States or State tax. The result of this movement which is now under way is seen in the very great difficulty of getting funds on mortgage investments, the prevailing rate being 6 per cent on such loans as can be obtained. We are persuading our clients, so far as possible, to grant extensions on existing mortgages, even though in most cases they could do better by calling and reinvesting. We feel that it would be a tragedy to have too many mortgages called and that there is a question of public policy involved and that our clients should share some little burden in sustaining the real estate situation by giving extensions on mortgages now held by them. It is practically impossible to persuade them to invest to any great extent in new mortgages.

In answer to the first inquiry, I beg to say that a removal of the tax on interest on mortgages by the State would give a considerable relief, but only a real and thoroughly substantial relief can be obtained by having the United States Government take off entirely the tax on mortgages under $40,000, or, better still, take off the tax entirely on mortgage investments. Conditions are so developing, in view of the legislation passed in this State hostile to landlords, that very little building can be expected in the next few years under existing conditions. It would be a bold man who would face the chances of strikes, higher prices of materials, etc., to construct a building, unless mortgage and other situations are reasonably settled. Practically all the people of the United States live in houses and there seems to be all over the country a great housing shortage. Some definite fundamental policy must be adopted which will encourage building, and of course financing is a prerequisite to any considerable building movement.

Very truly, yours,

NOAH C. ROGERS

NEW YORK, *April 16, 1920.*

RICHARD O. CHITTICK, Esq.,
217 Broadway, New York City.

DEAR SIR: Replying to your letter of April 15:

(1) In my judgment investment in mortgages at this time is practically limited to life insurance companies and savings banks, on account of the heavy taxation upon individual holders or trustees of estates.

(2 and 3) The answer to these questions is obvious. There can be no question, if interest on mortgages were exempted from payment of either or both State and Federal income tax, many investors who naturally prefer this form of investment, would find it financially desirable to place their funds in mortgages. All my clients and acquaintances are insisting on the payment of mortgages held by them as they mature.

Yours, very truly,

HENRY C. BEADLESTON.

APRIL 17, 1920.

REAL ESTATE BOARD OF NEW YORK,
217 Broadway, New York City.

GENTLEMEN: Your communication of the 15th instant in relation to the withdrawal of mortgage money from the market at the present time, at hand, and in reply we beg to state that for many years past we have always had clients who were willing to invest their money on bonds and mortgages covering real estate situated in New York.

However, during the past year we have had little or no money available for such investments. Upon investigation we find that during the war clients were investing surplus funds in Liberty bonds. After the war terminated and the cost of living increased and income and other taxes multiplied, we found that clients who relied upon the income of their investments for their support had made a careful survey of the situation and decided that the net returns from bond and mortgage investments were not sufficient to warrant further indulgence in such securities.

That by reason of the imposition of Federal and State income taxes upon the income received from this class of security, many of our clients have decided that their incomes would be reduced to an insignificant amount by the payment of those taxes. Therefore they decided to invest their money in preferred stock of representative corporations, thereby escaping the normal Federal tax, or in tax-paid bonds. We have found a large amount of dissatisfaction among people who have funds available for mortgage investments in that there is no escape from taxation thereon and the returns therefore are very small compared with other investments.

We believe that if the State of New York and the Federal Government could exempt from income tax interest on mortgages to a certain amount, it would relieve the situation considerably. We do not believe, however, that the improvement would be sufficient unless the State of New York will enact laws properly protecting property owners. The recent rent legislation at Albany is likely to prove a great detriment to the real-estate interests of the State, for both the State and city rely upon the payment of taxes as their chief source of revenue, and the evident intention to treat all property owners drastically will drive mortgage investors from the market, not to mention the deterrent effect on building construction.

Very truly, yours,

DUNN & DALY.

NEW YORK, *April 21, 1920.*

Mr. RICHARD O. CHITTICK,
Real Estate Board, 217 Broadway, City.

DEAR SIR: In reply to your letter, recently received, I will give you my views on the following questions:

1. On account of the heavy Federal income and sur tax, State taxes, etc., mortgages do not produce as much income as other forms of investment, consequently a great many mortgages have become due during the past few years, as the owners preferred to change the investments and buy securities that pay the surtax, thus causing not only a reduction in the amount of mortgages, but also increased the rate of interest on all mortgages.

2. If the State enacted legislation granting total exemption of interest on mortgages from the State income taxes, I think the exemption would help the real estate mortgage market, but this deficiency would have to be raised by some other form of compensation.

3. If the Federal Government granted similar exemptions, the same thing would occur.

As an investor, I have conferred with the Lawyers' Title Co. as to the policy of inserting a clause in all mortgages whereby the mortgagor would have to pay the income and sur taxes, but this clause might be considered usurious. I have therefore avoided as far as possible investing in real estate mortgages and prefer to buy securities that pay the surtax.

Yours, truly,

SPENCER ALDRICH.

HUNT, HILL & BETTS,
COUNSELORS AT LAW, PROCTORS IN ADMIRALTY,
120 Broadway, New York, April 19, 1920.

REAL ESTATE BOARD OF NEW YORK,
217 Broadway, New York City.

GENTLEMEN: Replying to yours of April 15 I would say that my practice does not bring me into touch with mortgages very extensively, although of course to some extent. I would say that the real estate market would be much improved and it would be much easier for owners to get mortgages at reasonable interest if the interest were exempted from State and Federal income tax. I think, however, this should be only a temporary exemption, as when interest comes down to a normal basis it will of course flow readily into mortgage loans.

Very truly, yours,

G. W. BETTS, Jr.

NEW YORK, *April 19, 1920.*

REAL ESTATE BOARD OF NEW YORK,
217 Broadway, New York, N. Y.

GENTLEMEN: In reference to the many schemes that have been advocated to attract mortgage money to real estate, I am surprised that so little mention is made of the usury law. If the Pennsylvania Railroad is borrowing at 7 per cent, I can not see how real estate owners, especially those desiring to borrow on vacant land, factories, or on second mortgage can expect to do so at 6 per cent.

It seems to me the first step toward attracting mortgage money is to permit owners to pay the current rates, which are now paid on investments.

Very truly, yours,

ARTHUR SMITH.

PHILLIPS & AVERY,
New York, April 19, 1920.

Mr. RICHARD O. CHITTICK, Esq.,
Real Estate Board of New York,
217 Broadway, New York City.

DEAR SIR: I am in receipt of your favor of the 15th instant asking certian questions in respect of State and Federal income taxation as affecting the real estate mortgage market, and beg to reply as follows:

1. It has not been my experience that mortgage money is being rapidly withdrawn from real estate on account of heavy taxation; my experience, however, having been chiefly in respect of investment as distinguished from building loans.

2. In my opinion, the effect on the real estate mortgage market, if the State should enact legislation granting total exemption of the interest on mortgages from the provisions of the income tax, would be to bring more money into the market for investment in permanent loans. As to building loans, the question appears to me to be more complex. The present extraordinarily high valuations; the abnormal cost of labor and materials; the uncertainty of the material and labor market, with the likelihood that in the future (more or less distant) building costs will be lessened, tend to make capital hesitant about loaning on building operations, and I doubt if the removal of the tax on incomes from mortgages would overcome these deterrent factors. This, in my opinion, would also apply to a large extent to permanent loans on new building operations.

3. The foregoing applies to your third question. I have limited my replies to the specific questions asked in your letter and in respect of the direct effect upon the real estate mortgage market. The subject is a broad one, and there doubtless would be

secondary or resultant effects from an exemption of interest on mortgages from the income tax which can hardly be foreseen or exactly analyzed.

As to the economic propriety and effect of removing State and Federal taxes from incomes derived from mortgage investments while leaving them imposed on incomes from other investments—that is another question.

Yours, very truly,

Frank M. Avery.

STATEMENT OF MR. JAMES FRANK, PRESIDENT OF THE NEW YORK STATE ASSOCIATION OF REAL ESTATE BOARDS.

Mr. Frank. The various real-estate boards in all of the larger cities of the State have given this question very conscientious consideration. They are all affiliated with the merchants' associations and chambers of commerce, and we have had meetings throughout the State this winter, and have found in every city the crying need was the shortage of houses and the inability to secure mortgage money.

I might say in the early period of the war our association, together with other State associations, planned a nation-wide campaign of a "Own your own home," which involved not only people building their homes, but buying their homes. We were specifically requested by the Government to stop that campaign. They said the money was needed for the Liberty loans; they said the material was needed for the Government, and labor was needed. And in answer to that demand, we ceased the effort to continue that movement. Therefore, the country must face some of that responsibility along with these other causes that have caused this shortage in homes.

One of the direct results was noted in New York during the past few months—you might call it a revolution—when the legislature of New York, upon the demand of the mob who were suffering from a lack of homes and high rents, as a resultant, passed laws they knew were of doubtful constitutionality; that they knew were taking away the rights of property, but still gave them the assurance that they, perhaps, had done what their constituents demanded; that is, to give them relief in rents. Since that time, as has probably been pointed out, there has been an absolute cessation of building in New York; no new plans are being filed and there has been a cessation in real estate, because the people will not invest or buy where there is regulation.

Mr. Treadway. Is that a united effort being made or individual?

Mr. Frank. It is just a direct result—no united effort on the part of anyone. People will not buy where the Government attempts to regulate the return on the principal.

Mr. Frear. How will this bill affect that situation?

Mr. Frank. This bill will supply the gap to give the encouragement to people to build irrespective of the regulation of rent. Of course, that applies only to New York City. It will create a different opportunity for people to go ahead, because they will have the means. They may have to fight to get the right return, but at any rate it will encourage building.

There is the further encouragement at the present time that the prices of materials seem to have come to a stabilizing point. The builders have indicated recently they are willing to go ahead and operate, but they can not operate and the owners can not operate unless they are afforded the amounts to build. The mortgage money is the one essential to create building and regulation is hurtful; but, nevertheless, that will be discounted if the people have an opportunity, because the demand is so great.

I should like to file a brief which was prepared for our association, showing the details as to the return to the Government from new activities which would result from the influx of building.

(The brief filed by Mr. Frank is as follows:)

Objections Advanced Against Exemption of Mortgage Incomes from Income Taxes and Answers Thereto.

(Prepared by the mortgage committee of the Real Estate Association of the State of New York.)

A bill is now before Congress, by the terms of which the income from $40,000 of mortgages held by any one individual shall be exempt from the Federal income tax. The purpose of this bill is to provide mortgage funds for the erection of housing accommodations, now so woefully needed in all sections of the country, both for homes and for business.

Mr. Rosenthal, editor of the American Building Association News, at a hearing before the committee of the United States Senate on Banking and Currency, held last October, states that according to his estimate, based on a careful survey, that we are 2,000,000 homes short in America. That condition is due to the lack of mortgage money and is impossible of relief, except that mortgages be so relieved from the burden of income taxes, as to make it possible to persuade funds into that line of investment.

The purpose of the proposed legislation is to make available mortgage funds, in order that this condition may be overcome. A number of objections have been advanced to the passage of this bill, the principal ones of which we discuss herein in detail as follows:

Objection No. 1.—That the Federal revenue would be very materially impaired by limiting the income tax on incomes from real estate mortgages amounting to $40,000 and held by any one individual.

This objection is to be found in every article or argument put forth by those opposed to the measure, and is implied in a letter from Secretary Glass.

Answer.—The following facts and figures would seem to demonstrate that any loss which the Federal revenue might suffer through the proposed exemption would be more than made up by the taxable income created through the conversion of non-income values to income values, from which the Government would derive an income.

It will be noted that the statements quoted above from Mr. Rosenthal's testimony in Washington that there is a shortage of housings throughout the United States totaling 2,000,000. As the shortage is most intense in the larger cities of the country, it is safe to assume that at least 1,000,000 of these housings, if provided, would be provided by the construction of multifamily houses or apartments, and probably 500,000 more would be of a rentable nature. Considering the apartments only, the following conclusions may be reached:

It is safe to assume that these housings would contain an average of 5 rooms each, or a total of 5,000,000 rooms. It is likewise safe to place the cost of construction per room at $1,000, or total cost of construction to make up this housing shortage of $5,000,000,000.

Land for the accommodation of these building operations based on the average value of land to improvements, would amount to $1,250,000,000. Total cost of land and buildings, $6,250,000,000, to which can be added $750,000,000 of builders' profits, making a total created value of $7,000,000,000. The land can be considered as non-income producing previous to the time such buildings would be constructed upon it.

Of the foregoing value, it is safe to assume that $3,000,000,000 would be represented by mortgages, and would be distributed among 100,000 holders of an average holding of $30,000 each.

Assuming that the average taxable income of the holders of these mortgages would $15,000 (which is perhaps high) and his income tax would amount to $730, 5 per cent interest on $30,000 of mortgages held is $1,500 or one-tenth of his total income. The Government, therefore, loses one-tenth of $730, or $73. This multiplied by 100,000 holders of these mortgages, and the loss to the Government is $7,300,000.

To offset this, we have $1,250,000,000 of land value which has been made productive and will produce a revenue of at least 6 per cent, or $75,000,000. We have $2,750,000,000 of equities in buildings over and above mortgages, which amount included contractors' profits, the income from which would equal at least 6 per cent of $165,000,000. The annual income, therefore, from this newly created property value, would aggregate $240,000,000. Assuming that the average taxable income of the owners of this property is $15,000 and the Government receives $11,680,000 income tax from this newly created wealth, or $4,380,000 in excess of the loss occasioned by the exemption of mortgages.

ADDITIONAL INCOME TO GOVERNMENT.

Contractors are enabled to realize a profit on their operation of 10 per cent, which would amount to $500,000,000. Operators and builders are expected to make a further profit of 10 per cent, plus selling and carrying charges, which would equal $750,000,000 or $1,250,000,000 profit on which the Government would collect an income tax, or an excess-profit tax of at least $75,000,000. To this is to be added the income and excess-profit tax derived from lumber, steel, cement, paint, and other industries furnishing the materials for this construction work, which would add at least another $25,000,000 to the Government's return.

No account has been taken of the building required for factory, office, and commercial uses.

The results in connection with this class of construction would be quite as advantageous.

ADVANTAGES TO PUBLIC.

Rents for living accommodations in New York City during the past year have increased 70 per cent; 40 per cent of this increase is justified by the increased cost of construction, maintenance, and operation. The remaining 30 per cent is the result of excessive demand, and is equal to at least $200 per year to a family occupying a a five-room apartment. This $200 per year can be saved by enabling building to come up abreast with the demand.

In New York City alone there are 1,000,000 families living in rented accommodations, and according to above estimate are paying each year $200,000,000 excess rent because of lack of adequate housing accommodations.

New York City is not the only sufferer, and this amount would be multiplied several times when the entire country is taken into consideration.

Again no account is taken of office, commercial, and factory accommodations, where rents have increased 125 per cent during the past year.

There is but one source of relief, and that is from a marked increase in building construction.

This relief is possible only by a free supply of mortgage funds, and that is possible only by placing mortgages on a basis where they can successfully compete with the large volume of tax exempt securities. As shown above this can be done with not only no loss to the Government, but with the assurance of an absolute gain, and at the same time save the citizens of the country hundreds of millions of dollars in excess rents, let alone added comforts in living accommodations.

MORTGAGES ON BUILDINGS ALREADY CONSTRUCTED.

It may be argued that if exempt mortgages could be limited to new construction the Government would be the gainer, but when applied to existing mortgages, there would be a heavy loss. After deducting mortgages held by life insurance companies, savings banks, and Federal farm loan mortgages, all of which are exempt at present, and there is approximately $20,000,000,000 held by other institutions and individuals, certainly not to exceed one-half of this amount would come within the exemption class. This $10,000,000,000 would entail a loss to the Government (figuring that the holders thereof have an average income of $10,000 per year) of about $15,000,000. This amount would be offset for seven years by the income and excess profit tax collection on account of profits made by contractors and operators in this new construction, and by profits made by material supply mills, after which time there should be a reduction in income taxes due to the passing of the necessity for such large expenditures.

Objection No. 2.—The elimination of taxes on incomes from real estate mortgages constitutes an addition to the list of tax-exempt securities which, in turn, would to that extent add to the burden of unexempted securities.

Answer.—This objection is very largely answered by our answer to objection No. 1. As a further comment on this objection, we would state that the exigences of the occasion warrants relief.

When the householders throughout the country are having laid upon them a burden in excess rents of hundreds of millions of dollars due to the impossibility of providing adequate housing accommodations as a result of lack of available funds, which lack is due to the burden which the Government has laid on funds which might be available for such relief, and the large volume of tax-exempt securities which is offered to the public in the shape of Liberty bonds, Victory bonds, Federal farm-loan bonds, State bonds, municipal bonds, etc., it does not seem reasonable or businesslike that Congress in order to extract $15,000,000 or $20,000,000 of taxes from the people should in doing so burden them with an excess-rent charge of from $300,000,000 to $500,000,000, and at the same time subject them to insufficient, improper, and uncomfortable housing accommodations.

Objection No. 3.—The tax exemption on an income from any security is wrong in principle.

Answer.—If this principle had been carried out without exception, the public would have no complaints to make to-day regarding their living accommodations and the shortage thereof. It is the fact that certain exemptions have been granted which have placed mortgage funds at such a disadvantage as to have created the present condition, and from which there appears to be no relief, except Congress takes some steps to make mortgage investments sufficiently attractive to draw capital to it rather than expel capital from it.

Objection No. 4.—The bill if enacted would furnish an opportunity for the wealthy to dodge taxes.

Answer.—In view of the fact that the amount of mortages which it is proposed to exempt can not exceed $40,000 in the hands of one individual this objection would seem to have no force or effect, and no extended comment thereon would seem necessary.

Objection No. 5.—Exemption from income taxes should apply to incomes from new mortgages only and not to mortgages on existing buildings.

Answer.—On first thought this objection might seem reasonable and logical, but on a further analysis of the results arising from its operation, and it would make more difficult than even now the retaining of mortgages on present constructed properties, and would place serious handicaps on the owners of present constructed properties, compelling them to pay a rate of interest and bonus far beyond that which they are to-day paying.

Objection No. 6.—The present condition of the mortgage market is a temporary one and the regular financial channels will ultimately be able to take care of the necessary new construction.

Answer.—This is a statement without any adequate proof of its correctness and comes from officials of certain financial organizations which are already exempt under the law.

Savings banks have always been the holders of only a small percent of our mortgage securities. The private individual in the aggregate holds by far the larger percent of our mortgage securities, securing such securities through his lawyer, real estate broker, or mortgage guarantee companies. To assume that savings banks and life insurance companies could even begin to supply the demand for mortgage loans is quite out of the question. The same conditions which have driven funds of the private investor into other channels of investment and withdrawn them from the mortgage investment will continue to do so as long as the same conditions exist, and just so long will the building industry of the country be throttled and its citizens subjected to insufficient housing accommodations and to exorbitant prices therefor.

Objection No. 7.—The Federal home loan bank system when and if organized will serve the purpose of the plan to eliminate mortgages from income taxes.

Answer.—It would take at least two or three years after the passage of the Federal home loan bank system and before the necessary State law could be passed to place it in operation, and after that it would be another year or two before banks would be organized and the expansion of the activities of the Home Building Loan Association could take place.

Furthermore we wish to state that the proposed Federal home loan bank system, when and if organized will be of but little service to the larger cities throughout the country, and particularly so to New York City. This bill limits the amount of anyone mortgage which may be rediscounted with the Federal home loan bank to $10,000. It is intended and admittedly so to encourage home ownership. Quite commendable within itself but quite impossible of accomplishment by a large percentage of the residents in the larger cities.

Ninety-eight per cent of the families in Manhattan are living in rented apartments. The ownership of a home in Manhattan can only be enjoyed by the very wealthy. A very large percentage of those living in Manhattan can not possibly travel the dis-

tance necessary to reach the suburbs, where they could afford to own a home. First, because of the large amount of time required in making such trip, and, second, because of the added expense. This same condition is likewise true to a great extent in the Borough of Brooklyn, as likewise the Borough of Bronx, and is rapidly becoming so in the Borough of Queens, and must necessarily be found to exist to a considerable extent in other large cities of the country.

Is it fair, just, or reasonable, therefore, to confine legislation to the benefit of the man who is so happily located that he can own his own home and thereby enjoy all the comforts, pleasures, and benefits emanating therefrom and penalize the man who because of his place of employment and environment must live in a rented apartment? That he is so penalized is established by the fact that the bill does not provide any added facilities or inducements for the erection of apartment and tenement houses, but does make that act more difficult by adding to the already considerable list of exempt securities, with a result that such living apartments must grow more scarce each year, and hence secured only at higher rents.

Alternatives to objection No. 1.—With $100,000 of mortgages held by any one individual, be exempt from income tax as per following schedule:

$25,000 of mortgages, income tax 2 per cent of income.
$25,000 to $50,000 of mortgages, income tax 4 per cent of income.
$50,000 to $75,000 of mortgages, income tax 6 per cent of income.
$75,000 to $100,000 of mortgages, income tax 8 per cent of income.

This would give to the investor the following results, based on a 5 per cent mortgage:

First, $25,000, income $1.250, tax $25, net return $1,225, net rate 4.9 per cent.
Second $25,000, income $1,250, tax $50, net return $1,200, net rate 4.8 per cent.
Third $25,000, income $1,250, tax $75, net return $1,175, net rate 4.7 per cent.
Fourth $25,000, income $1,250, tax $100, net return $1,150, net rate 4.6 per cent.

Total investment of	$100,000
Total return	5,000
Total tax	250
Total net return	4,750

Net rate 4.75 per cent.

A 6 per cent investment would return practically 1 per cent better net return.

On $20,000,000,000 of mortgages this would return to the Government an income tax of $50,000,000 per year. The rate of tax might be reduced in half and the $25,000,000 realized by the Government per annum thereon, together with added income on new construction, would most likely offset any possible loss.

The CHAIRMAN. I desire to insert in the record a short letter from Mr. Kahn, of California, inclosing a telegram from the real estate association in San Francisco.

(The letter and telegram will be found at the end of to-day's proceedings, under the heading "Addenda.")

Mr. PARISH. Mr. Chairman and gentlemen, we feel we have trespassed on your patience as long as we ought.

Senator CALDER. I would like to make a short statement to the committee.

STATEMENT OF HON. WILLIAM M. CALDER, UNITED STATES SENATOR FROM THE STATE OF NEW YORK.

Senator CALDER. I have been wondering whether I should address you, Mr. Chairman and gentlemen, as a representative from the State of New York in the Senate of the United States, or as a man who has dealt with this problem in every-day life for the past 30 years. Perhaps I might speak to you in both capacities.

I have been engaged in building homes for the people of New York all my life, and I have given a great deal of study to this subject. I do not know whether the committee is informed or recalls that during the war the Treasury Department, the War Industries Board, the War Finance Corporation, and nearly every other function of

Government discouraged all building operations. It seemed to me at the time, and I protested, too, against it; it was not necessary; that we should permit building operations to take their usual run where the money and material could be obtained. But the Secretary of the Treasury, in his judgment, believed that the money and the material and the transportation was needed for war purposes and of course the country was compelled to acquiesce in his judgment.

Now, during the years 1917 and 1918 there was little or no building in this country except for war purposes. It is estimated we need each year in this country at least three billion and a half of money for building operations. That was cut out entirely during those years; so when we got to the year 1919 and the war was over we had that tremendous shortage because of the fact we did not build for two years and also because of the fact that beginning in 1907, down to the beginning of the war, each year there was a falling off in building generally throughout the country. So to-day we have this tremendous shortage.

I have built, since coming to Congress 16 years ago, a thousand houses or perhaps twelve hundred houses in New York City—all of them homes, perhaps most of them small homes, but some of them large houses and apartment houses. I know the subject there. There are several reasons for the shortage of buildings and here we are unable just now to meet the demands because of the great increase in the cost of material and labor, but more important of all is the need of money.

Let me cite just an experience of my own for last year. I built 25 houses last year. These houses sold for an average price of $18,000. They would have been sold in 1914 for about $10,000. Upon these houses first mortgages were placed by me of $8,000—a savings-bank mortgage. That was all the bank was willing to loan. It seemed to me when I started the buildings a liberal loan.

Mr. LONGWORTH. $8,000 or $10,000 did you say?

Senator CALDER. $8,000.

Mr. LONGWORTH. That was the limit——

Senator CALDER. That they fixed. I said "These houses cost 100 per cent more than they would cost in 1914." They said "Admitting that, we are not willing to loan you on that basis, because we are only allowed to loan 60 per cent on the value of the property and while maybe you can get $18,000 for them to-day, we do not believe in a period of years they will stand up under these prices." If I had needed a larger loan, perhaps I might have gone to one of the loaning companies, the Bond & Mortgage Co. of Brooklyn, or one of the title companies—the Title Guarantee & Trust Co., or one of the numerous loaning companies in New York, and have borrowed $10,000 or $11,000. But I could afford to take the loan of $8,000. I had some money of my own invested in the matter, so I took the loan and built the houses and sold them. I sold those at an average of $18,000 and received, on the average, $4,000 cash on the sale of the house—$8,000 first mortgage, $4,000 cash and I took a second mortgage on those $18,000 houses of an average of $6,000. So that when I got through I had second mortgages against the houses totaling about $150,000.

Now, I can take care of that in my own organization. I have never sold a second mortgage, although I have taken, perhaps, $1,000,000 worth in the period of 10 or 15 years. The money comes

in there in quarterly payments, and it is used in new building developments. But if I needed that money to-day, if I had to dispose of those second mortgages, I would be required to pay at least 20 per cent to sell them. I could not dispose of them for less than that and for many reasons. The fact that the people who buy them, and they are usually men of means who can afford to wait for their money, would only get, under our law fixing 6 per cent as the legal interest in our State, about 2½ to 3½ per cent net on their investment, so the men would not invest their money at that rate of interest; they would know that after they paid the taxes to the State and Nation that is all they would have left. The remedy would be, of course, to increase the legal rate of interest; but no one would ever care to suggest such a measure as that. You could never pass such a measure as that through the legislature. And, therefore, all this contributes to the stoppage of building operations.

My own judgment is, and I introduced the same bill in the Senate, this would be very helpful. Let us see what this would do. Assuming 6 per cent would be netted on the mortgages, you would have for any one individual an exemption of $2,400 of his income. Now if the tax averaged 10 per cent, no one individual would get out of it more than $240 of exemptions—no one individual could get more than that. I insist, the same as some of the rest of the gentlemen here, that the incentive to extend building operations would be so great that the profit out of these building operations, a tax on those profits, would much more than make up the amount the Government would lose.

Mr. LONGWORTH. Have you made any estimate as to what it would cost the Treasury—the effect on the revenue?

Senator CALDER. No. I feel generally, Mr. Longworth, that the result finally would be that we would not lose a dollar; that the Treasury would more than make it up out of a tax on the profits in the business. And I say this from a lifetime of experience, that we have got to do something here in this Congress to help the construction industry of the Nation. If we do not, as one witness said a moment ago, we will be facing a situation whereby the people will be coming to us, as they did during the war, and asking us to take care of the housing matter ourselves. And I would deplore that.

My own opinion is that this amendment to the revenue act would increase, rather than decrease, the revenue collected. Mr. Greve, vice president of the Realty Associates of New York, who as Mr. Greve states, are the largest builders of small homes in the city of New York, has told you this morning of a typical situation which exists in his own company's operations, where the company will be unable to continue a large building operation it now has under way unless the mortgage money market is relieved and the company is able to place first mortgage loans on their property. The situation of this company with respect to this particular building operation is typical of a great number throughout all the country, and there is no doubt in my mind that relief to the present mortgage money market would very strongly induce additional new construction. An exemption from income tax of the income from $40,000 principal of mortgages means (at 6 per cent) the exemption of $2,400. On the

basis of first mortgage loans to the extent of 60 per cent of the value of the property, $40,000 of mortgages would permit construction to the extent of at least $65,000. The income from rentals on property of that value would be approximately $6,500 nét annually; so that the Government, in exempting $2,400 of income annually, induces the creation of new property which will produce additional taxable income of almost three times that amount. There is also the point to be considered—though it is immaterial in the consideration of Federal revenue—that the exemption would result in the creation of new taxable property from which the various States and municipalities would derive a materially increased revenue.

Recently the Senate, having in mind these difficult situations, passed a resolution authorizing the appointment of a committee. A select committee of the Senate will inquire into this whole subject of building costs, transportation, and all the other elements—capital investments—entering into this whole subject. The Senate appointed me chairman of that committee. My judgment is this is the first remedy we should apply, and I hope the committee, after considering the matter, may feel disposed to act favorably on it.

The CHAIRMAN. Have all the gentlemen you want to testify been heard?

Mr. PARRISH. There was one gentleman who was engaged in the Government employ, in the department of housing, who wants two minutes to talk to you—Mr. Fisher.

STATEMENT OF MR. JAMES B. FISHER, BROOKLYN, N. Y.

Mr. FISHER. I appear here as representative of the Brooklyn Board of Real Estate Brokers. I have made a very earnest study of this question from every side of the situation. I have been in the real estate business for the past 15 years and have also been connected with the Shipping Board or that part of it which concerned the Housing Corporation from the very beginning of it until last June, and this has given me the opportunity of comparing local conditions with the conditions which exist throughout the United States. We found it necessary to build houses in New York, in Michigan, in Jacksonville, Fla., in Newport News, Lorain, Ohio, and other places. In these smaller places there was a more urgent need and a larger shortage of houses than in the larger cities, some of which have been overbuilt and had not developed. In my experience with Government work I have learned that conditions were against the Government getting things cheaply, and even the different shipyards are turning their interests over to the Government, without cost in many instances, because of local conditions which prevent them getting mortgages on them. For instance, in Brooklyn, even building and loan associations have not got the money and can not get the money for their members, and even in Brooklyn I am unable to finance their propositions for them. On account of this shortage of money an extra charge of as high as 3 per cent is made in order to get the money. I could go into this subject much deeper, but as it is getting late and I do not wish to take up your time, I will only say that this is merely one of the different ways in which we have been trying to fight Bolshevism; to own their own homes is the best thing that could happen for our Government.

The CHAIRMAN. What branch of the Government do you represent?

Mr. FISHER. I am not representing any branch of the Government now, but I was, until June 15 last, housing manager for the United States Shipping Board.

The CHAIRMAN. June 15 of last year?

Mr. FISHER. Yes, sir; June 15, 1919: we spent $70,000,000 on this housing proposition but only $1,000,000 of that was spent in New York.

Mr. PARRISH. We want to thank you again and want to say that we are impressed with the idea, from the inquiries made by members of your committee, that you are not altogether convinced and we therefore ask the privilege of submitting to you a brief to cover the matter.

The CHAIRMAN. We will be very glad to have you furnish us with such a brief and will have them printed in the record.

(The committee thereupon adjourned.)

ADDENDA.

(Letters submitted by Hon. Julius Kahn, a Representative in Congress from the State of California:)

COMMITTEE ON MILITARY AFFAIRS,
HOUSE OF REPRESENTATIVES,
Washington, D. C., May 25, 1920.

Hon. JOSEPH W. FORDNEY,
Chairman Committee on Ways and Means,
House of Representatives.

MY DEAR MR. CHAIRMAN: I hand you herewith a telegram from Mr. Fred E. Reed, president of the California State Real Estate Association, regarding the matter of the exemption of mortgages up to $40,000 from income tax.

I am engaged in a conference on the Army reorganization bill. We are trying to come to an agreement on that measure with the managers on the part of the Senate this very morning.

May I ask, therefore, that you lay before your committee the telegram from Mr. Reed? I should like to present the matter personally, but under the circumstances I would appreciate your action in laying the matter before your committee.

Very sincerely, yours,

JULIUS KAHN.

OAKLAND, CALIF., *May 24, 1920.*

Hon. JULIUS KAHN,
House of Representatives, Washington, D. C.:

California State Real Estate Association is very desirous you assist bill before Ways and Means Committee to exempt mortgages up to forty thousand from income taxation. Hearing will be held Wednesday morning.

FRED E. REED,
President California State Real Estate Association.

TREASURY DEPARTMENT,
Washington, December 26, 1919.

MY DEAR CONGRESSMAN: I have the honor to acknowledge receipt of your letter of December 13, 1919, requesting the views of the Treasury with respect to H. R. 8080. introduced by Mr. McLaughlin, "to encourage the builiing of homes by providing for exemption from taxation of the income of mortgages on real estate." This bill appears to be the same one in which the Merchants' Association of New York has been interesting itself, and is substantially similar to S. 2094, introduced by Mr. Calder. I am, therefore, inclosing herewith, for the committee's information, a copy of my letter of June 24 to the secretary of the merchants' association and a copy of my letter of July 29, 1919, to the chairman of the committee of the Senate, which fully state the Treasury's attitude toward the proposed legislation.

I may add that since these views were expressed, the enormous activity in building trades, evidenced particularly by the wholly extraordinary number of building permits, has demonstrated conclusively that this industry does not need to be subsidized by the Federal Government in the manner proposed.

I am convinced that the bill is unsound and unwise legislation, and am definitely opposed to its enactment for the reasons stated.

Sincerely, yours,

CARTER GLASS.

Hon. JOSEPH W. FORDNEY,
Chairman Committee on Ways and Means,
House of Representatives.

JULY 29, 1919.

MY DEAR SENATOR: I have the honor to acknowledge receipt from the Committee on Finance of bill S. 2094, entitled "A bill to encourage the building of homes by providing for exemption from taxation of the income on mortgages on real estate," with a request for comments touching on the merits of the bill and the propriety of its passage. This bill proposes to amend paragraph (b) of section 213 of the revenue act of 1918 by adding thereto a new subdivision to read as follows:

"(9) The amount received by an individual as interest on an aggregate principal not to exceed $40,000 of loans secured, under a mortgage or otherwise, solely by real estate."

This bill, I take it, is the same one in which the Merchants' Association of New York has been interesting itself, and I inclose herewith for the committee's information a copy of my letter of June 24, 1919, to the secretary of the merchants' association, which fully states the views of the Treasury as to the proposed legislation.

I am convinced that the bill is unsound and unwise legislation and am definitely opposed to its enactment. The problem of raising sufficient revenue by taxation is a serious and delicate one, and the Government can not at this time afford to dispense with the revenue which would otherwise accrue to it on account of interest on mortgages.

I realize the necessity of encouraging in every proper way the building of homes, but in my judgment the proposed amendment discriminates unfairly in favor of mortgage loans and would cut down the revenue to an extent entirely out of proportion to its tendency to encourage building. The exemption granted inures primarily to the lending class, and the extent to which this benefit might be passed on to the person who occupies the building so constructed would rest with the owner of the mortgage. Moreover, the exemption would apply to loans already made on real estate security, and as to such loans would have practically no justification.

Sincerely, yours,

CARTER GLASS, *Secretary.*

Hon. BOIES PENROSE,
Chairman Committee on Finance, United States Senate.

JUNE 24, 1919.

DEAR SIR: I beg to acknowledge receipt of your letter of June 10 stating that the Merchants' Association of New York respectfully urges that a law be speedily enacted exempting from all Federal income taxes, including surtaxes and excess-profits taxes, the interest from investments not exceeding $40,000 in mortages on real estate in the United States owned by any taxpayer.

I do not hesitate to say to you that I am wholly opposed to such legislation. So far as taxation is concerned, the problem with respect to New York real estate loans is largely a local one. The suggestion that the Federal Government should grant to investors in mortage loans exemption from Federal taxes, including, to an important extent, surtaxes and excess-profits taxes, is, in my judgment, wholly untenable and will have my vigorous opposition.

Very truly, yours.

CARTER GLASS.

S. C. MEAD, Esq.,
Secretary Merchants' Association of New York,
233 Broadway, New York.

LETTER SUBMITTED BY HON. JOSEPH W. FORDNEY (CHAIRMAN), A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MICHIGAN.

TITLE GUARANTEE AND TRUST CO.,
New York, May 27, 1920.

MY DEAR MR. FORDNEY: I am sure that all of the representatives of the real estate interests of the country appreciated the courtesy and patience with which you and the members of the Ways and Means Committee listened to them at the long hearing granted them yesterday. I hope we made it plain that the purpose of Mr. Siegel's bill (H. R. 14062) is a borrower's bill and in no sense an investor's bill. Even this could not be urged so strongly if it were not for the housing situation which is so acute and troublesome all over the country.

It is very plain from the committees which are being appointed in many cities, and from the serious attention which legislative bodies of various kinds are giving to the subject, that some solution must be found. Congress, we think, should choose the simple remedy and the one least violative of sound Government policy. We can admit that all exemptions from taxation are vicious and if we could start over perhaps there would not be any at all, but as long as so many have been granted that the mortgage borrower is put at so great a disadvantage in the market that he can not borrow at all, it is only right either to give him an exemption that will put him on an equality with other borrowers or remove all other exemptions, which will also put him on an equality with other borrowers.

Now, we know that it will be a long time before Mr. Rainey can remove the exemptions from municipal and State bonds and a still longer time before they will be removed from Government bonds, and that until both things are done the only fair thing for the mortgage borrower is to give him an exemption and an equal chance, particularly when there is involved the whole housing problem which makes it not only fair but absolutely necessary to do something to produce the houses.

The Congressman who thought the remedy was to drive the people out of the cities and back to the farms will be much slower in bringing about his remedy than Mr. Rainey will, and meantime something must be done. Even if the additional 10 per cent of the populations of the big cities which have come in from the country and which it would be well to drive back to the country, could be so driven back by this process, it is rather rough on the 90 per cent who belong in the cities and will always have to stay there, to be forced up in their rents so high that the 10 per cent will be driven back to the land. Certainly it will not be a happy time for municipalities or for Congress while this plan is being carried out.

It is very certain that if the simple step embodied in the Siegel bill, or something like it, is not taken, a much worse measure and one which appeals to a good many short-sighted people, will be urged, and that is State and municipal construction. It has been tried in England, you know, and in other countries with very unfortunate results and not only has had a bad effect upon the tenants, who, to this extent, are in a measure pauperized, but has destroyed private initiative on which it has always been the policy of this country to rely if possible.

It is true that money alone will not solve the problem, but it is the first step toward solving it. New construction is financed largely on borrowed money and without the money it is not even commenced. If the first step is not taken, no subsequent step is possible.

You made the inquiry yesterday whether the measure could not be limited to mortgages not exceeding $40,000 in amount, but a little reflection will convince you, I think, that such a distinction will be unwise and ineffectual. The mortgage market is one great market and the mortgage fund is one great big fund. Either money is running out of it or running into it. It is not divided into compartments so that one compartment can be kept full while the others are empty.

If the interest on mortgages exceeding $40,000 in amount remains taxable, and from then on mortgages of less than $40,000 is exempted, there would be a rush to call the big mortgages and take the small ones. The effect on the mortgage market will be very bad, for the big mortgages have to be taken care of and will compete so for the money that the small ones can not get it, or the big mortgages will be foreclosed and that will be a great disaster.

The theory of the advocates of this measure and of the $40,000 limit is, first, to obviate the charge that it is a means for providing large tax-exempt investments for the very rich, and, second, to draw into the mortgage market the small average-sized investor to take the safe course of putting his money into mortgages and to get the masses under the mortgage market which the rich are deserting. No better step can be taken for the small investor, and nothing that will produce more good citizens, than providing for him a nonspeculative investment which will conduce at the same time to the building of homes and the multiplication of home owners.

I think we can make it plain that this whole step can be taken without its really diminishing the receipts of the Treasury from the income taxes, but rather increasing them. If this is reasonably certain, we can see no real objection that can be urged to the bill. The inclosed computation shows what we believe will be the result to the Treasury. It may be a little better or a little worse, but even if considerably worse it will not be more than is due by the Government in aid of housing and home ownership or at all commensurate with what it will have to pay if it goes into Government housing.

Very truly, yours,

CLARENCE H. KELSEY, *President.*

Hon. JOSEPH W. FORDNEY,
House of Representatives, Washington, D. C.

MEMORANDUM AS TO THE PROBABLE RESULT TO THE REVENUE OF THE TREASURY DEPARTMENT IF THE INTEREST ON NOT EXCEEDING $40,000 OF REAL ESTATE MORTGAGES IN ANY ONE PERSON'S OWNERSHIP IS EXEMPTED FROM THE INCOME TAXES.

The purpose is to furnish the borrowed money on which alone the building construction program sufficient to take care of the housing requirements of the country can be financed.

We will suppose as a standard an operation involving an aggregate expenditure of $1,000,000, of which the land cost will be $300,000 and the building cost $700,000 and on which the money borrowed will amount to $500,000. The net return from the investment should be at least $60,000. The interest on the mortgages would be $30,000, leaving the net income of the owner $30,000, on which the normal tax would be $2,400.

Under the proposed bill the Government would get no tax on the $30,000 of interest on the mortgages. The Government has waived the tax on the income of $500,000 of capital put into the mortgages, on which, if invested previously in nontaxables, it was collecting nothing, but even if it was collecting a normal tax on that $30,000 it has secured a tax on $30,000 of income previously nonexistent, for neither the land nor the materials nor the labor was paying any income tax.

The Government, therefore, has either broken even or gained $2,400 in taxes on this one item of the operation, but it has gained a great deal more than that, for the builder who built the buildings should have made not less than 10 per cent on his contract, or $70,000, and the material men who sold the material probably $300,000 in amount, if not more, should have made at least 10 per cent on their sales, or $30,000. There is here a gain to the Government of $100,000 in taxable income produced by promoting the construction. On this $100,000 the income taxes would probably be much above the normal tax, but supposing it only equals the normal tax, there is $8,000 of taxes from this side of the undertaking.

Therefore, this operation has netted the Government in taxes $10,400 as against $2,400, or nothing as the case may be, which it may have netted out of the $500,000 of capital put into the mortgages. At the worst, therefore, the Government has gained four and one-third times as much as it has waived and perhaps has gained $10,400 in taxes without waiving anything.

There can be no question, therefore, that as to the new money that is tempted into the mortgage market by the proposed exemption, there is a great gain to the Government, but how about the existing mortgages which, so far as they are held by any person in amounts not exceeding $40,000 which will at once be free from the income tax on the interest thereon? At 6 per cent interest, every $500,000 of old mortgages of the class will escape $2,400 of normal taxes but every $500,000 of new mortgage loan will make up for the loss on four and one-third times as many old mortgages. If, as will probably be the fact, there will be much more than the 8 per cent normal tax paid on the profits of the builders and the material men, the proportion will be so much the greater.

Now, it is estimated that one-third of all the mortgages in the country are held by the life insurance companies, savings banks, and other exempt institutions, that one-third are held in large units and will not be exempt, and that one-third will be affected by the proposed exemption and will be relieved from income taces. It is difficult to state the total mortgage indebtedness of the country. It is estimated by one authority at nineteen billions. It is probably somewhere from that figure to twenty-four billions. If it is the higher figure, it would mean $8,000,000,000 of mortgages the

interest on which would become exempt. If these are 6 per cent mortgages, the amount of annual interest would be $480,000,000, and an 8 per cent normal tax on it would be $38,400,000, but whatever it is, it is plain from the foregoing that new construction brought about by the exemption would take care of the loss on at least four and one-third times as many already existing mortgages. It is probable that they would take care of seven and two-thirds times as much because of the surtaxes on profits of the builders and material men making their total rate of tax 16 per cent instead of 8 per cent, or on each million of new construction, $18,400 as against $2,400 waived.

While, therefore, it is not likely that there would be construction immediately to make up for the loss of revenue on $8,000,000,000 of existing mortgages, or $38,400,000 annually, it is plain that at the rate either of $4\frac{1}{3}$ for one or $7\frac{2}{3}$ for one it would not take long to do this, particularly as the gain in income from rents of new construction accumulates and what is produced one year pays each year thereafter. The builder's and material man's profit on each year's construction is paid only that year, but the taxes on the income from rents continues to be paid when once the buildings are erected.

Now, whether these figures are accepted as correct or not, the principle certainly is correct and the conclusions approximately correct, and they show that at the worst the Government will lose very little and will lose only temporarily, and in time will build up a greater revenue from granting the exemption than it can expect from withholding it. It is probable that the favorable results to the Government in the foregoing computation are underestimated and that besides the direct advantages from the elements in the operation cited above there will be quite as much advantage from trades and industries indirectly affected and the greater business activity that will follow from a large building construction development.

But aside from the Government's gains in revenue from the operation, what about the tenants? It is conservatively estimated that there has been an average advance in rents throughout the country of 50 per cent, reasonably due to increased cost of producing, owning, and operating buildings, and at least 20 per cent more extorted from tenants because of the dearth of space and lack of competition, giving full play to any profiteering disposition. If this is correct, the $60,000 of rent on the $1,000,000 of construction first instanced is increased 20 per cent, or $12,000, by profiteering; that is, the tenants who occupy the buildings are paying that much more than they should do or than they would have to do if buildings were produced so that profiteering could not be indulged in. That $12,000 is five times the $2,400 which the Government is asked to waive on the $500,000 of mortgage money which has gone into the transaction.

If, therefore, this $2,400 is made up to the Government as it is planned that it is, have not the tenants the right to ask the Government to take what risk there is in losing something by waiving the tax to save them five times as much in rent extortioned?

That there will be a building boom if the mortgage money can be found to finance it, there can be no question. It is estimated that 400,000 homes a year are required from this time on to hold things as they are and not increase the dearth of space. That means $2,000,000,000 a year for homes. The mercantile and business situation is as bad, and $2,000,000,000 a year are required to take care of that situation. The $3,000,000,000 of mortgages that will be exempted represent perhaps $16,000,000,000 of value and therefore, at a ratio of four and one-third for one, two years' construction will make up for the loss, and at a ratio of seven and two-thirds for one, one year's construction will nearly make up for the loss, and after it is made up, the Government will go on reaping greater and greater returns from the policy adopted.

MAY 27, 1920.

STATEMENT SUBMITTED BY MR. JOHN PARISH, SECRETARY, THE ADVISORY COUNCIL OF REAL ESTATE INTERESTS.

Hon. JOSEPH W. FORDNEY,
Chairman Committee on Ways and Means.

GENTLEMEN: The measures, H. R. 14062, and S. 4206, are not advocated as a cure for all the industrial ills of the country nor, primarily, as revenue bills, but as emergency measures, to meet and supply the immediate and urgent needs of all parts of the country, reflected in an unprecedented shortage in housings of all kinds, but chiefly domestic or residential and industrial.

A second object is to release and provide money with which to supply the needs of mortgage debtors who face the prospect of foreclosure and bankruptcy because

there are no funds in the usual sources of supply with which to refund their presently maturing mortgages.

While we believe the taxation of basic capital is fundamentally wrong, is uneconomic and operates to defeat its own purpose, we do not at this time urge revision of the entire income-tax law, but only its amendment, so that a small portion of the funds now diverted by operation of that law may be allowed to flow back into the mortgage market for the relief of the great building industry and for the refunding of maturing mortgages.

We can not agree with the view expressed by Senator Glass, when he was Secretary of the Treasury, that the problem is, as Gen. Hancock once said of the tariff issue, largely a local one. From all parts of the country complaints are heard of the shortage of housings, the rapidly rising rents, and the inability of borrowers, farmers especially, to borrow money with which to refund their maturing mortgage debts.

We believe the apprehension of the Government, stated by former Secretary Glass in his letter to Senator Penrose, on July 29, of last year, that the proposed amendment "would cut down the revenue to an extent entirely out of proportion to its tendency to promote building" has no foundation in fact or probability. And the Secretary's allusion to these bills as providing a subsidy for the building industry (letter to the chairman of this committee, Hon. Joseph W. Fordney, Dec. 26, 1919), adds only insult to injury.

The building industry is prostrate, the country short of housings, and mortgage debtors are confronted with financial disaster and ruin solely and only because of the financial and taxation policies of the Government, acting chiefly through the Treasury Department.

In the first year of its entrance into the Great War, it commandeered the materials of construction and the man power of the building industry for war uses, all consenting. Incidentally, it sapped the resources of the mortgage market and forbade loans for building purposes. It also created a large volume of investment forms and made them entirely or partly exempt from taxation, and refused, as Senator Calder has shown, to extend the protective features of the War Finance Corporation or Federal reserve bank laws to real estate securities, although strongly urged so to do. And finally it loaded the real-estate mortgage market with a burden by its income-tax law that it can not carry and continue to supply funds for building and the refunding of maturing mortgages. If the Government had been malevolently determined to destroy the mortgage market and the building industry, it could have employed no more effective method.

As direct consequences of the policy thus indicated, the mortgage markets of all the country have been sapped of their resources; investors have been and as fast as mortgages mature are requiring payment and are withdrawing from the mortgage line of investments; builders have prepared plans for hundreds of millions of dollars of new construction and can not proceed because they can not obtain basic loans; opportunity has been afforded by operation of these laws for "profiteering" over a nation-wide field—the tenant classes exposed to exploitation—the mortgage debtor even more disastrously. If Senator Glass had been better advised or could have seen deeper into the situation he could not have used the term subsidy to an industry which has been so maltreated, and where restitution would be the more proper term.

So far from cutting down the revenues of the Government we have shown that they are now being rapidly cut down by operation of the existing law, and that these bills, if enacted, will not only stop that process but will lead to such an increase, through new construction, in productive wealth as will make up quickly any temporary loss of revenue and ultimately add to it many times over.

Estimates of the total volume of mortgage debt in the entire Nation vary, as Mr. Kelsey has shown, between $19,000,000,000 and $30,000,000,000. Some say the aggregate is more than $30,000,000,000. For present purposes this estimate will be more than fair.

Approximately a third of this sum is held by tax-exempt owners, leaving about 20 billions, the income from which is subject to taxation. At an average rate of interest of 6 per cent, the annual income from this line of investments would be $1,200,000,000, the normal tax on which would be $48,000,000. Personal exemptions would account for probably one-sixth of this, leaving as the Government's annual revenue at the normal rate, $40,000,000. Surtaxes would increase this amount, doubtless, to $60,000,000, for people who have to pay surtaxes are not extensive holders of mortgages. Now, the proportion of this $60,000,000 of revenue that would be remitted by these bills would be parallel only to the proportion which all mortgages of $40,000 or less in individual ownership, bear to the whole volume of outstanding taxable mortgages. This is probably one-half and possibly two-thirds of the whole. So that from a third to a half of the whole would not be affected—nor the Government's revenue

from them, by these bills. So that if these bills are enacted the Government would have to make restitution, by remission of these destructive taxes, to the mortgage market and the building industry, to the amount of not over $40,000,000 a year (to probably not over half that sum).

But as has been shown, the Government is doomed to lose this revenue anyway, and within the next few years. The bases of taxation are disappearing—are being liquidated as mortgages mature, by payment and satisfaction, by foreclosure, and by refunding by exempt holders.

Now, the country stands in urgent need of new construction to make up the deficit of the last five years, of at least $10,000,000,000 in amount, and of at least $4,000,000,000 per year to meet normal requirements thereafter. It is not claimed that all of this can be supplied as easily as it is said, because the great army of producers of building materials, now dispersed, must be re-assembled, and the materials brought to the builders. But Government's revenues will begin to flow to the Treasury as soon as the lumbermen in the woods send their first booms to the sawmills.

The builders, and the financiers supporting them, will spring to action as soon as they are assured that the mortgage market has been freed from the burdens of the income-tax law, even to the limited amount provided by these bills. Senator Calder has shown you out of his own large experience, and Mr. Greve, and Mr. Simon, that they continued in the production of housings until the mortgage market was closed to them, and are ready to proceed again as soon as the mortgage market shall be freed, as it will be if and when these bills are passed.

It has been shown that the normal output of new construction to meet the country's needs amounts to $3,000,000,000—at present costs $5,000,000,000—and that we are five years in arrears. To bring these stupendous figures down within easy grasp, let us take a simple operation, calling for a mortgage investment of an even $50,000. This might, for the purpose of the calculation, be considered as one of 100,000 units of like amount, making up a year's building schedule.

This loan of $50,000 at 6 per cent would form the financial basis of a building operation which should result as follows:

Basic capital, first mortgage, 6 per cent		$50,000
Builder's capital, land and cash		25,000
Builder's profit		15,000
Value of product		90,000
This must and would rent for		15,000
Overhead charges would be (per year):		
Local taxes, 2½ per cent on $90,000	$2,250	
Interest on $50,000, at 6 per cent	3,000	
Operating expenses, maintenance, etc	3,750	
Total charges		9,000
Leaving as net income		6,000
Federal Government income tax on this $6,000 of net rental income and surtax		330
Increase tax on income from $10,000 of first mortgage (excess over exempt part)		24
Total Federal revenue		354
To get this, Government must forego of tax produced by present law		120
Difference in favor of free mortgage market		234

The Federal Treasury would gain much more than this, for at least 10 per cent of the entire taxable value of this new taxable would be profits of the material men and subcontractors, and taxable as such. At the normal rate this would swell the Treasury's annual income by $360 per year on every such operation—increasing the total annual income-tax revenue to $714, and on the hundred thousand units to a total annual income of $71,400,000, as against a possible maximum of $40,000,000 remitted by operation of the proposed bills.

It would surely be a poor business operation to refuse to exchange a declining and disappearing revenue of $40,000,000 a year for a certain and constant revenue of $71,400,000, increasing at the rate of 100 per cent per year.

Furthermore, the volume of mortgages in excess of $40,000 in individual holdings and which are not affected by these bills is increasing enormously at the present time, by the making and recording of purchase money mortgages, given in lieu of cash, in part purchase of investment properties. Enactment of these bills will encourage continuance of that line of operations and so still further increase the Government's revenue from this class of taxables.

We believe the facts set forth in this statement are conservatively stated and are incontestable. We think we have shown how only general prosperity can flow from enactment of these bills; how the great building industry with all its vast ramifications may be restored to normal functioning, the tension in the renting conditions relaxed and ultimately removed, the mortgage debtor relieved of his anxiety, and the confidence of a great people in their Government be restored.

THE ADVISORY COUNCIL OF REAL ESTATE INTERESTS,
JOHN L. PARISH, *Secretary.*

WASHINGTON, D. C., *June 1, 1920.*

Part 2

REAL ESTATE MORTGAGE TAXES

HEARINGS

BEFORE THE

COMMITTEE ON WAYS AND MEANS

HOUSE OF REPRESENTATIVES

ON

H. R. 8080

A BILL TO ENCOURAGE THE BUILDING OF HOMES BY PROVIDING FOR EXEMPTION FROM TAXATION OF THE INCOME ON MORTGAGES ON REAL ESTATE

H. R. 14062

A BILL TO ENCOURAGE THE BUILDING OF HOMES BY PROVIDING FOR EXEMPTION FROM TAXATION OF THE INCOME ON MORTGAGES ON REAL ESTATE

AND

H. R. 14473

A BILL TO RELIEVE HOUSING CONDITIONS BY THE ENCOURAGEMENT OF INVESTMENTS IN REAL ESTATE MORTGAGES

SATURDAY, DECEMBER 11, 1920

PART 2

WASHINGTON
GOVERNMENT PRINTING OFFICE
1920

COMMITTEE ON WAYS AND MEANS.

HOUSE OF REPRESENTATIVES.

SIXTY-SIXTH CONGRESS, THIRD SESSION.

JOSEPH W. FORDNEY, Michigan, *Chairman*.

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NICHOLAS LONGWORTH, Ohio.
WILLIS C. HAWLEY, Oregon.
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ERNEST W. CAMP, *Clerk*.

SUBCOMMITTEE.

HENRY W. WATSON, Pennsylvania, *Chairman*.

LUTHER W. MOTT, New York
WILLIAM A. OLDFIELD, Arkansas.

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REAL ESTATE MORTGAGE TAXES.

SUBCOMMITTEE OF THE
COMMITTEE ON WAYS AND MEANS,
HOUSE OF REPRESENTATIVES,
Saturday, December 11, 1920.

The subcommittee met at 2 o'clock p. m., Hon. Henry W. Watson, presiding.

Mr. WATSON. The committee will come to order. On May 26, 1920, hearings were had on H. R. 8080, introduced by Mr. McLaughlin, and on H. R. 14062, introduced by Mr. Siegel. Since that time Mr. Hutchinson has introduced a bill, H. R. 14473, which is as follows:

A BILL To relieve housing conditions by the encouragement of investments in real estate mortgages.

Be it enacted, etc., That the revenue act of 1918 be amended so as to exempt from taxation interest derived from investments in mortgages on apartment houses and private dwellings used or to be used as homes: *Provided*, That the amount of the mortgage on any one apartment house or private dwelling used for home purposes shall not exceed $50,000 and that the same is duly recorded in accordance with the laws of the Sate where executed.

Mr. WATSON. There are a number of gentlemen present who want to be heard, who were not present at the last meeting. We are holding this meeting of the subcommittee for that purpose, to consider these bills to encourage the building of homes by providing for exemption from taxation of the income on mortgages on real estate.

I notice Mr. J. Willison Smith, of Philadelphia, is present, and if it is his pleasure to make a statement now we will be glad to hear him.

STATEMENT OF MR. J. WILLISON SMITH, VICE PRESIDENT OF THE LAND TITLE & TRUST CO., PHILADELPHIA, PA.

Mr. SMITH. Mr. Chairman, do I understand that the three bills are before us for consideration?

Mr. WATSON. They are all for tax exemption of the income of mortgages.

Mr. SMITH. They vary in come important items.

Mr. WATSON. We will hear statements on H. R. 8080 and H. R. 14062. These bills are similar, Mr. Hutchinson's bill is of the same tenor, with the exception of the exemption on $50,000 instead of $40,000.

Mr. SMITH. In the McLaughlin bill, Mr. Chairman, I call your attention to the fact that the interest rate is 5 per cent on mortgages.

Mr. WATSON. We can consider all of these bills.

Mr. SMITH. I am vice president of the Land Title & Trust Co., Philadelphia, also the appraiser for the Philadelphia Co. for Guaranteeing Mortgages.

Mr. Chairman, we are confronted in Philadelphia and also in other sections of the country with a serious housing situation. I have had reason to know, because of my connection with the United States Shipping Board Emergency Fleet Corporation's housing and transportation department, as assistant manager, and, later, manager of that division. We found it necessary to put houses for ship workers in about 34 points in the United States, spending approximately $72,000,000.

We found at that time in all sections of the United States where we were considering placing housing that it was very difficult to have any of the builders proceed with the housing program, partly due to war conditions and partly due to the fact that the people in the localities where the housing was to be placed for the ship workers knew that there was a fund provided by the Government for that purpose.

Now, in Philadelphia in particular and its surrounding section, we are confronted with a very vital condition. First, we are short of houses. It is true that one factor in the problem is the prohibitive cost, but running parallel with that is also the very important factor of a real condition in that we can not find mortgage money. From the standpoint of return only, and not from the standpoint of security, individuals have found a better place to put their money for investment than by placing it in mortgages, as was previously the case.

We found in the Land Title & Trust Co., with which I am connected, that previous to the war—in 1916, for example—we would have 50 building operations. To-day, we have less than 12, and the building operations involving housing in 1916 represented at least two or three to one that we would have to-day.

Now, we find this condition as to investors formerly interested in mortgage investments. Asked why they did not invest in mortgages they will very politely tell you that they can get a better return on Liberty bonds or municipal bonds, or other tax-free securities. So that, a man or a woman having a sum to invest, whether it is large or small—and the larger the sum they have the less likely they will invest in mortgages—will give little or no consideration to mortgage investments, because the greater their income the smaller their net return when investing in mortgages, so that the condition in Philadelphia as to the housing and investing in mortgages on houses has become almost stagnant.

Take, as an example, our own company. We can not invest our deposits in mortgages; they must be of a liquid nature, something that is elastic and could be readily turned in case of necessity; but, we have invested of the $12,500,000 capital and surplus $5,500,000 in our real estate. We have invested over $3,700,000 in what we term collateral loans on mortgages. Most of those have been made to builders for the purpose of erecting new structures.

Now, these mortgages are made for a period of one year. The modus operandi with the Philadelphia builder is this: He will present a building operation and place his mortgage at, we will say, 60 to 66 per cent of the value of the property. On that we will loan 80 per cent, and the remaining 20 per cent of that mortgage will be paid, or, rather, will be secured—through the sale of the mortgages to individuals, we receiving, when the mortgage is sold, our 80 per cent and the builder getting credit for the remaining 20 per cent, which will help to carry the building to completion. The mortgagee—that is, the investor or the individual who takes the mortgage—is then in a position to have his mortgage, possibly on an uncompleted or partly uncompleted structure, but with a bond and policy of our company, insuring him against loss by reason of failure to complete and against the question of liens.

Now, that $3,700,000 at the present time is practically a frozen credit. It is a frozen fund. It will not move, because we are unable to find the purchasers who will take the mortgages under the present conditions, with the Federal tax reducing the net return to such an amount that it does not compare favorably with other securities that they can obtain.

Mr. WATSON. May I interrupt you? There are about $16,000,000,000 invested in nontaxable securities. If these securities did not exist is it your opinion investors would buy mortgages?

Mr. SMITH. I thoroughly believe so.

Mr. WATSON. You are connected with the Philadelphia Co. for Guaranteeing Mortgages?

Mr. SMITH. Yes, sir; chief appraiser.

Mr. WATSON. And the Land Title & Trust Co.; what amount has your company loaned on mortgages?

Mr. SMITH. Approximately $25,000,000.

Mr. WATSON. How many years have you been in operation?

Mr. SMITH. About 10 years.

Mr. WATSON. What amount of mortgages have you sold during the 10 years?

Mr. SMITH. Approximately $10,000,000.

Mr. WATSON. Have you any idea of the loss to the mortgagees?

Mr. SMITH. There is no loss to the mortgagees, because in that company we guarantee principal and interest, but to the company itself—well, the loss is nil; practically $1,000 or $2,000 in the whole 10 years.

Mr. WATSON. Then the investment in mortgages is limited because of the higher rates of interest obtained from other investments, Liberty bonds, for instance?

Mr. SMITH. Well, we feel that was absolutely the condition, and if this exemption was made we are satisfied that the investing public who have been accustomed to invest in mortgages and others who have not been accustomed to it, knowing the security of such a mortgage investment, would return to that class of investments.

Mr. WATSON. What was the number of houses constructed in Philadelphia during 1913 or 1914?

Mr. SMITH. In 1914—I can give you that in just a moment—6,418 two-story and 475 three-story houses.

Mr. WATSON. They are practically houses for the workmen?

Mr. SMITH. They are, practically.

Mr. WATSON. How many houses were constructed last year?

Mr. SMITH. In 1919, 4,642 two-story houses and 568 three-story houses.

Mr. WATSON. Have you an estimate of the number to be erected next year, under present conditions?

Mr. SMITH. In this present year, Mr. Chairman, we have the record showing to October 1, 1920, 1,692 two-story houses and 533 three-story houses.

Mr. WATSON. There has been an increase in population since 1914. Where do the workmen live; how are they housed without increased building operations?

Mr. SMITH. Well, naturally, as we find in times of depression there is a doubling up in the shortage that we have had. We have found that it is absolutely necessary for men to find a place by doubling up with their relatives or friends, bringing about a very unsatisfactory and unhealthy condition.

Mr. WATSON. Could you make an estimate of what percentage of mortgage loans there are in the city of Philadelphia as compared with other investments? I ask this because there is opposition to the bill on account of the exemption of taxation on certain securities. There are about $16,000,000,000 invested now exempted. If taxes were paid on $16,000,000,000, according to a statement I received this morning from the Treasury Department, it would add $160,000,000 to our revenue.

Do you believe it wise to repeal the law—have no tax-free securities?

Mr. SMITH. As far as mortgages are concerned?

Mr. WATSON. Yes.

Mr. SMITH. I thoroughly believe that, regardless of the condition as to the other securities, the relief of mortgage investment from taxation is just as vital as any issue that we have. I am confident that they should be placed in the same class by reason of a necessity for housing and for the stability of the man who owns his house to know that he can finance himself through individuals as well as through banking institutions who are affected just as much as the individual in relation to their taxes on mortgages.

Mr. WATSON. What did it cost to build a house previous to the war—in 1913—as compared with 1920—the same structure?

Mr. SMITH. I can give you a concrete illustration, Mr. Chairman, on that. In Philadelphia the Land Title & Trust Co., had charge of the erection of 1,531 houses for the Shipping Board. They were built on the lump-sum basis. Mr. Crawford, who is here, as president of the Philadelphia Building Association, and a man named Snyder, built those houses on the lump-sum contract. The average is about $3,000 for a six-room-and-bath house, with electric light, hot-air heat, and other conveniences.

Mr. WATSON. Including the real estate?

Mr. SMITH. That is just the house itself. That includes everything within the curb line, and the rear lot. That house was 16 feet by 30. To-day, if you wanted to build the same house, according to the figures that were submitted to me by one of the builders, Mr. Snyder, the price would be $6,475.

Mr. WATSON. What would your company loan on a $3,000 house?

Mr. SMITH. On a house which in 1916 would have sold for possibly $3,000, we would have loaned $2,000. To-day on that same house we would loan approximately $3,000, which would mean that if the house cost $6,500, we would be loaning 50 per cent or less of its present-day cost.

Mr. OLDFIELD. What is your rate of interest?

Mr. SMITH. All mortgage interest to-day is 6 per cent in Philadelphia.

Mr. OLDFIELD. Don't you think that is one trouble? There are a lot of gilt-edge securities paying 7 and even 8 per cent. I noticed in the paper last night that the Western Electric Co. have some short-time notes, payable in two or three years, say—I have forgotten the length of time—at 7 per cent. And I find a lot of bonds—I don't know how good they are, but railroad bonds, Standard Oil Co. bonds, various bonds that everybody has always said were gilt-edged—some of them paying all the way from $7\frac{1}{2}$ to 9 per cent. Don't you suppose that has something to do with curtailing your ability to do business?

Mr. SMITH. It must be admitted that that has something to do with it, but that does not affect the small individual or the man who has been accustomed to invest in mortgage securities and who has not become accustomed to invest in notes or large bond issues.

Mr. OLDFIELD. Now, anything in the world that would help a man build a home, buy a house, or build a house for his own use is a good thing for the country, of course; and I take it, from your testimony here, that you do help people build their own houses to live in themselves?

Mr. SMITH. We do. That is part of our business.

Mr. OLDFIELD. But, at the same time, you say a 6-room house cost $3,000 in 1914 or 1915; now it costs $6,400. Don't you think the price of supplies and materials retard the building and hurt your operations considerably also?

Mr. SMITH. That is also another factor; but why add or keep a condition that could be avoided, and avoided without any particular loss to the Government?

Mr. OLDFIELD. How much would be the loss to the Government in taxes?

Mr. SMITH. Well, I have not figured that accurately, but——

Mr. OLDFIELD (interposing). Have you, Mr. Chairman?

Mr. WATSON. Well, I telephoned to the Secretary of the Treasury a few days ago, and he said he could not possibly tell me. But I believe Mr. Calder—Senator Calder—had some kind of estimate. Now, I take it, from the $16,000,000,000 Mr. McCoy told me if taxes were paid, that would bring $160,000,000; that is, 10 per cent on the $16,000,000,000.

Mr. OLDFIELD. Are there that many tax-free bonds out now?

Mr. WATSON. Yes; $16,000,000,000. If these bonds were taxed according to the others they would create a revenue of $160,000,000.

Mr. OLDFIELD. It is very important that we should know how much the Government would lose in taxation. We have all sorts of trouble here—this committee has—in trying to get enough money to run the Government and pay the interest on our indebtedness, and I have never seen conditions in my part of the country—I live down South—as bad as they are now. The farmers down there can not sell their products.

They can not sell their cotton. They can not sell their corn. They can not sell their rice. They can not sell their live stick at any price. And it seems that—of course your business is hurt, too, but it seems that everybody's business is hurt. If you had heard the statements yesterday of the wool growers out West—it is a terrible situation. They have got wool on hand probably for two years and can not sell a pound of it.

They are trying to liquidate, trying to pay their debts and can not do it.

Mr. SMITH. I appreciate that.

Mr. OLDFIELD. I don't know whether the industrial centers—I don't believe the industrial centers at this moment are quite as bad off as the agricultural districts.

Mr. SMITH. At the same time, however, this condition, as far as the housing and mortgage situation——

Mr. OLDFIELD (interposing). It is a very serious thing.

Mr. SMITH. Yes; and it has been running much longer than the other situation of which you speak, which has developed possibly since last May.

Mr. OLDFIELD. I would be might glad to see rents come down in Washington. Would this have any effect on that?

Mr. SMITH. I don't know. I can not speak for Washington on that, but it might have an effect.

Mr. WATSON. Have investments in mortgages been diverted into Liberty bonds?

Mr. SMITH. I do know that to be an absolute fact.

Mr. WATSON. Do you know the percentage? From the records of your company?

Mr. SMITH. No; I could not say accurately, but I know many million dollars in Philadelphia have been diverted from mortgages to Liberty bonds and other tax-free securities, and when you take a security like a municipal bond, which is tax free, it is a public issue; but, nevertheless, this housing situation is also a public issue, and if we do not take care of it in some way and make the approach to mortgage investment easier, so that these men can go out and get their homes, and those who have to build them, that they may finance them through mortgages and get them completed, we may face the same condition that England has faced, where she has put hundreds of millions of dollars into her housing program.

Far be it from me to recommend such a thing, but I feel absolutely assured that we are coming to a situation where we will have to meet this housing problem, and rather than than throw up barriers we ought to try to keep them down.

Mr. WATSON. Is there a tax also on mortgages?

Mr. SMITH. Yes, sir.

Mr. WATSON. Do you know if all States collect a mortgage tax?

Mr. SMITH. Some States have what they call a recording tax—New York for example. I understand that in New York this tax takes about one-half of 1 per cent per year, but they make it all at one time. Philadelphia has a four-tenths of 1 per cent State tax, which runs every year. Mr. Stabler, comptroller of the Metropolitan Life Insurance Co., advises me that the recording tax was paid, as was stated, at the time the mortgage was recorded, and that represented a half of 1 per cent. There is also a small State income tax which they are hoping to have repealed.

Mr. WATSON. Does any member of the committee desire to ask further questions?

Mr. OLDFIELD. The State tax in Pennsylvania is four-tenths of 1 per cent. That cuts it down to nearly $5\frac{1}{2}$ per cent.

Mr. SMITH. Yes.

Mr. OLDFIELD. Now, how much on your business is the Government tax?

Mr. SMITH. What would the Government tax be?

Mr. OLDFIELD. Yes. How much Federal tax would you pay now on your business. That leaves the bond net to you, $5\frac{6}{10}$ per cent?

Mr. SMITH. Yes.

Mr. OLDFIELD. Now, what percentage would the Government tax bring it down to? To net you?

Mr. SMITH. It would depend on the amount invested. For example, on a tabulation which has been made, it shows that an income of $500,000 would receive on a $10,000 bases $174 on every $10,000. On a $10,000 proposition you get $534, while on a $500,000 basis you would reduce it per $10,000 of that $500,000 to $174. So, the more you make the more you give to the Government, and that is what is driving the large estates out of the mortgage investment line. I am told on good authority that in New York City there will be called this year and the early part of next year at least $25,000,000 that is already invested and maturing on New York real estate.

Now, you can see the predicament that that puts people in. There is to-day in Philadelphia a situation where the maturity of mortgages, which never has been a serious matter in previous years, is a real factor in the housing problem. In the past we would let the mortgages go on for an indefinite period, just callable on demand, since the mortgagees were not very anxious to get their money if they felt that the mortgages were well secured. They usually were, and the loss was very small.

We believe that during the next year we will have at least $15,000,000 worth of mortgages called in Philadelphia by reason of this very condition—that the return is so small.

Mr. WATSON. You stated you increased the rate of interest on guaranteed mortgages issued by your company. How long since?

Mr. SMITH. That is about five months.

Mr. WATSON. Has the sale of mortgages increased?

Mr. SMITH. Yes. The result has worked out in this way: In the past we required the loaner to pay the guaranty charge of one-half of 1 per cent, and now the borrower pays it, so that instead of guaranteeing $5\frac{1}{2}$ per cent on a 6 per cent mortgage we actually give the mortgagee 6 per cent, the borrower paying the charge for the service which the Philadelphia company guaranteeing the mortgages renders. And from that, of course, under present conditions the State tax of four-tenths comes off, so that the net return before taking off any Federal tax is 5.6.

May I just make one suggestion? I understand that a question has been raised on the proposal in one of these bills to limit the time to five years. Personally I would like to see the entire limitation taken off in the McLaughlin bill. It has a limitation of 5 per cent interest and $40,000. There is a possibility of an amendment on the

basis of a five-year limitation. I feel for the best interests of the conditions all over the country in mortgage investments that it would be well to make none of those restrictions and to take out of the bill the 5 per cent interest and, if possible, take out the limit of $40,000 principal of the mortgages.

I can appreciate that while you are considering that you will have to take the other side of how you are going to finance the Government.

Mr. WATSON. Should you build more houses, is it your opinion that the Government will gain revenue with the $40,000 exemption?

Mr. SMITH. Of course, that will produce to the Government a very large profit all the way down the line, from the time that the man takes the clay out of the ground for bricks, or the wood out of the forest for lumber, and all the other parts of building construction will produce a large profit to the Government, by reason of the increased activity that would follow. There will be in the near future I am satisfied a very great activity in building construction as soon as conditions are stabilized.

I am satisfied that the high prices are not going to come down to the level anticipated by the public generally, that is, an exceptionally low price, or even back to 1916 or 1918 prices. I believe, however, that within a very short time we will begin to find ourselves, and the public will realize, that the big proportion of the building construction is labor, and that labor is not going to come down 100 per cent or anything like it.

Therefore, there will be, by reason of increased building activity, a very large profit to the Government in other forms of taxation that they would more than offset any loss occasioned by this legislation.

Mr. OLDFIELD. You don't think the price of labor is coming down in proportion to the price of other commodities?

Mr. SMITH. I do not.

Mr. WATSON. Do you desire to make further statements?

Mr. SMITH. That is all I have, Mr. Chairman. Thank you.

Mr WATSON. We are much obliged to you.

I want to introduce into the record a letter sent by Senator Calder. I shall not read it; he urges tax exemption on mortgages be made permanent, rather than for a limited period.

The paper referred to follows:

UNITED STATES SENATE.
SPECIAL COMMITTEE ON RECONSTRUCTION AND PRODUCTION,
December 11, 1920.

MY DEAR CONGRESSMAN WATSON: I received a telegram this morning from Senator Calder in which he suggests that if I make a statement before the Ways and Means Committee this afternoon, I should urge that tax exemption on mortgages be made permanent rather than for a limited period.

I did not contemplate making any statement at the hearing, and have engagements this afternoon which would make it difficult for me to appear, but inasmuch as I stated to you last night that I felt that the tax exemption on mortgages should be granted at once and continue until the issuance of tax-exempt securities is checked, I take the liberty of drawing Senator Calder's communication to your attention.

It would seem unwise that tax exemption on mortgages should be limited to a definite period, for, if at the end of that period tax-exempt securities were still being issued in the same volume as at present, present conditions would reoccur.

It might, therefore, be inadvisable to place a limit on the period of exemption at this time.

Very truly, yours,

F. T. MILLER.

Hon. HENRY W. WATSON,
House of Representatives,
Washington, D. C.

Mr. WATSON. Mr. Crawford, of Philadelphia, are you ready to testify?

STATEMENT OF MR. DANIEL CRAWFORD, JR., PRESIDENT PHILADELPHIA OPERATIVE BUILDERS' ASSOCIATION, PHILADELPHIA, PA.

Mr. OLDFIELD. Whom do you represent, Mr. Crawford?

Mr. CRAWFORD. I am president of the Philadelphia Operative Builders' Association.

In the city of Philadelphia we have housed our people in individual homes, and because of that condition it has developed a special class of builders that devote their attention largely to the construction of homes, so that we have a separate organization there, known as the Philadelphia Operative Builders' Association, and that is the association that I represent.

Up to within very recent years we produced in the city of Philadelphia large numbers of small individual workmen's dwellings, and sold them at prices ranging from $2,500 up to about $4,000 for the average workman's dwelling. We were able to finance those purchases on very easy terms.

Using a $4,000 house as an illustration, we could place a $2,500 first mortgage and a second mortgage of probably $800 to $1,000 in a building loan association, and the purchaser could buy that home by paying $500 or $600 in cash. We found that we could induce large numbers of persons who had limited means to buy sometimes by taking a very small payment, probably $300 or $400, and taking their notes, so that we might help them out. In my experience ranging over a period of 25 years I don't know of any case of that kind where the purchaser has defaulted payment.

We have created rather a stable labor condition in Philadelphia, largely due to our housing condition, which does not prevail in many of our other large cities. And that condition, of course, was very much changed by the war-time condition.

For the three years prior to the war, taking in 1914, 1915, and 1916, we built an average of 9,500 of those small two-story houses each year. Beginning with 1917, it was reduced in that year to 2,386; in 1918, 884; in 1919, 442; and this year, 1,692.

I want to explain, however, that out of that 1,692 houses I doubt if over 1,200 or 1,300 of them were erected. Many of the builders took out permits last spring, as they had been accustomed to do, before they had received all of their estimates as to the cost of the house. So that I know of at least three or four operations, ranging around 100 houses apiece, that were abandoned after they had all of their estimates in.

Mr. OLDFIELD. Isn't that the real trouble now, that the cost of materials is so high that the man can't afford to build a house? That

was the condition some months ago and is right now. Mr. Fordney, a lumberman, ex-chairman of our committee, was telling me a day or two ago about the fall in the price of lumber from way up yonder to way down. A while back, you know, lumber was awful high and every other piece of material that went into the house: in addition to that, labor was higher than it ever had been.

Mr. CRAWFORD. Well, I will just analyze that lumber condition now. In 1914 we were able to buy rough lumber for the construction of these houses for an average of about $20 a thousand delivered on the job.

Mr. OLDFIELD. That was in 1914.

Mr. CRAWFORD. Yes, sir. In the spring of 1919 we were able to buy that same lumber delivered on the job for $40 a thousand. In the spring of 1920 that same lumber was bringing $65 delivered on the job. But I want to call your attention to this, that most of the houses that we have for sale in Philadelphia to-day were built on the price ruling in the spring of 1919, that $40 base of which I spoke. The cost of these houses average in total about 100 per cent more than the prewar cost. The houses were not completed until the spring of 1920, due largely to the difficulties in obtaining materials. During 1919 it was almost impossible to get prompt shipments of plumbing and heating materials. So that, while these houses should have come on the market in the fall of 1919, a great many of them were held over until the spring of 1920. About the time they came into the market this depression in business came along, and many of them are unsold to-day. We have possibly twelve or fourteen hundred houses of that type which are unsold, and yet they were produced on prices 40 per cent below to-day's price. I doubt therefore if the recession that you indicate will carry us back to the so-called prewar level, because the price of rough lumber to-day, delivered on the job, is about $48. I am told that the break in lumber came largely from the fact that when this present market condition arose there were certain concerns in the South holding large stocks that were compelled to liquidate. Those stocks have been largely absorbed, so that to-day most of the lumber mills have shut down because they can not produce to meet a $50 market for delivery on the job in Philadelphia.

Now, the best information I can obtain in making inquiries from many of the wholesale dealers and the local lumber dealers, is that the price for delivery on the job that will permit those mills to resume will be in the neighborhood of $55. So that there is no indication of the fact that prices will go back to the prices of the spring of 1919.

If I am not taking too much time I might analyze that cost a little further if you would like to have it. We take as a basis a $4,000 house. The value of the raw material that enters in the construction of that house in its raw state—I mean lumber on the stump or in the tree, stone in the quarry, and clay in the ground, and metal in the mines, does not represent 5 per cent of the cost of that house. So that 95 per cent of the cost is in labor and the profit on labor. That is divided up in this manner: About 60 per cent is common labor, and 40 per cent is skilled labor. In the old days we paid common labor 17½ cents per hour, and if it happened to rain two days a week the common laborer went home with $7 in his pocket for a week's pay to keep a wife and family on. And it is generally admitted that such an amount was not sufficient. He should have had 25 cents an hour, and if we are going to regulate his wages on the basis of the increased cost of living he should have 45 to 50 cents an hour in the future. So that we must figure common labor on a basis of at least two and a half times what it formerly was, which would be 42 cents an hour. Skilled labor I think we can say we will be able to get back on the basis of 100 per cent above the old price, which will be a reduction of about one-third from present rates. To-day the average rate is about $1.25 an hour, and I believe we can get that back to $1 an hour, which will be just about double what we formerly paid.

Taking those figures as a basis, the cost of producing that house will be $9,000, and I doubt, gentlemen, if we will be able to get below those figures. That house to-day is figured to cost $10,800. If we get it back to $9,000, I think it will be as far as we will go, and that will be 10 per cent below present cost.

Now, I desire to call attention to the difficulty that we are having to-day in financing these houses that were produced on prices ruling in the spring of 1919, which are lower than, I believe, future costs will be. The house that I have just analyzed, to cost $9,000 in the future, we are offering for $8,000, based on the cost to which I refer. I recently submitted some mortgages on those houses to one of our large institutions in the city of Philadelphia, and they agreed to take mortgages of $4,000 each, provided I could make the interest rate equal to 7½ per cent. We could not do that and take that difference out of profits, and I doubt if we can do it and add it to the cost.

Mr. OLDFIELD. The trouble about it is that the company you were talking to could probably make that much money some other way.

Mr. CRAWFORD. Undoubtedly. They are having offered to them investments that pay 7, 8, and 9 per cent and their duty being to their stockholders or their policy holders, they are in duty bound to get the best return they can. We have no criticism of that.

Mr. OLDFIELD. I don't see how we can relieve you if you have that condition.

Mr. CRAWFORD. There are, however, many individual investors who have formerly taken mortgages but who are not taking any to-day. I have in mind one gentleman who usually invests large sums in mortgages, or always did, up to about two years ago. He has an income of about $500,000 a year, and in talking with him recently he called my attention to the fact that if he takes mortgages he gets a return of about 3 per cent. Of course, he is not going to take mortgages. So that before we can obtain any relief in the way of obtaining funds—that is, financing the home buyer—we must find a way to either obtain more money with which to function, which will automatically reduce the interest rate, or we must obtain an exemption of income on mortgage investments to make them attractive to the investor.

Mr. OLDFIELD. Well, now, on the basis of yesterday, at the close of the market, 4¾ Liberty bonds pay about 6½ per cent. Of course, I realize that it is impossible for you gentlemen to compete with Liberty bonds.

Mr. CRAWFORD. Yes; that is true.

Mr. OLDFIELD. You couldn't do it. You couldn't do it if you were relieved from this exemption, unless those bonds go up. You are not asking as much as 6½ per cent here, net.

Mr. CRAWFORD. That is true. We couldn't compete with them, but we have in the city of Philadelphia a class of people who have been accustomed to investing in mortgages.

Mr. OLDFIELD. And of course the Treasury Department here don't want anybody to be able to compete with them, because they want to sell these bonds. Of course, they are financing now at 6 per cent, with these certificates, short-term certificates. Of course, the Treasury Department, I suppose, would be opposed to this legislation.

Mr. CRAWFORD. Yes, to my mind.

Mr. OLDFIELD. It is a very serious thing, and I wish there was something we could do.

Mr. CRAWFORD. Some way must be found upon which general business can function, if we are to travel on the level that I indicated. In housing, if it is 125 per cent above the old level, we must have more credit available for that purpose.

Mr. OLDFIELD. I don't think it is going to stay there. I don't think it can stay there. I don't see how it can, with the other business, all kinds of business, every other kind of business—lots of business is in worse condition than you are. Because you take the fellow who produced crops—I am more familiar with that than I am with your business, of course—when they raise cotton that cost them probably 30 or 35 cents to produce and can't get but 9 cents; and the sheep grower, the cattle grower are on a par with them, and corn is selling now at 25 cents a bushel out West, and they are preparing to burn it this winter in many places instead of coal. When large areas of the world are starving for bread, it seems to me that you are in pretty good shape.

Mr. CRAWFORD. I thoroughly agree with you that such a condition is almost a crisis.

Mr. OLDFIELD. It is a crisis.

Mr. CRAWFORD. But I believe that it is going to be necessary for this Government to assist the farmer, at least to the extent that he can orderly market his crop.

Mr. OLDFIELD. I think it is the duty of the Government to assist every line of business in every way it is possible to do it.

Mr. CRAWFORD. I think the difficulty that he is suffering from is the very difficulty that I indicated. Rates of interest in this country have risen to 8 and 9 per cent because we have tied up practically $24,000,000,000 that is not liquid for the use of business purposes; we are attempting to travel on a level that is 150 per cent higher than the old level with less credit than we had before; and, gentlemen, I don't believe it can be done. We must either knock down this basis or we must have more credit; but the fact remains that the level of value throughout the world has risen, and America to-day, even at 150 per cent, is not out of balance with the level of the world, such as we were in 1873. What caused the 1873 panic was this: Our values were higher than the level of the world and out of balance, and necessarily fell. To-day that condition does not exist. And if you will permit me I will tell you of an experience I had a few days ago. We had a meeting of the trades council of the Manufacturers' Club of Philadelphia. That council consists of a representative from every trade in the city of Philadelphia.

The manufacturers were criticizing very severely the retail dealers and especially the shoe dealers for not liquidating, and after the argument had gone to a certain point a gentleman arose and said: "Gentlemen, I am a retailer, and I am a shoe dealer." It so happened that he was a gentleman who had four stores in the central section of Philadelphia and a very large dealer. He said: "I am selling shoes to-day for $8 per pair that I paid $12 for. And only yesterday a representative of one of the largest manufacturers in the country was in my office showing me a line of shoes for spring trade and he asked me $10.50 for the same shoe that I am selling for $8."

Now, if that is the condition, I believe that the prices that are ruling to-day are below the level that we are going to travel on. I believe that the prices that you talked about for farm products are below it in level. The farmer is not going to produce a crop this year and sell it at that price. I think you will agree with me on that.

Mr. OLDFIELD. And I am afraid a lot of them are not going to be able to produce crops at all next year.

Mr. CRAWFORD. That is true, and that will automatically raise the price. Therefore it is necessary—it is almost an absolute necessity—that some relief be afforded.

It is also necessary that relief be afforded in other directions, and if this matter is handled in a big broad comprehensive way and general relief rendered to the business interests of the country we will get our share. I am not afraid of that. And if that can be done rather than something special of this sort that is real relief. This is only temporary.

Mr. OLDFIELD. Well, I think everything that is possible in the way of legislation should be done to help all sorts of business. Now, if we can do it legislatively we ought to do it.

Mr. CRAWFORD. I have digressed considerably from the matter at issue, and I trust you will pardon me.

Mr. OLDFIELD. There are some things that we can't do by legislation.

Mr. CRAWFORD. That is true, but the disposition seems to be to permit the American workingman to live on a proper standard, and all of our productive enterprises are endeavoring to-day to establish a standard of value and not reduce wages beyond a reasonable point. That I think is in the minds of all of us. But that means that we must travel on a new level, and it means also that we must have the credit with which to go.

Mr. OLDFIELD. Well, I don't understand this credit situation myself. Now, for example, a man wrote me that he wanted to borrow $5,000 from a bank the other day; he had $25,000 in Liberty bonds he wanted to put up as collateral, and couldn't get the money. He tried four or five banks. I don't understand that.

Mr. CRAWFORD. Isn't that because the Federal reserve banks have put such a low rate on loans, even on Liberty bonds, that there is no profit in it for the bank?

Mr. OLDFIELD. They pay 9 and 10 per cent down my way for cash when they go to the bank and borrow it. It is very unusual to pay less than 8 per cent.

Mr. CRAWFORD. I have known of instances of that kind, but I think it was because there was no profit to the bank and, therefore, they didn't care to handle the transaction.

Mr. OLDFIELD. Well, the banks ought to be more patriotic than that.

Mr. CRAWFORD. Well, perhaps that is true. Then, again, it may be that the resources of that bank were absorbed. That is true of a great many of our banks to-day.

Mr. OLDFIELD. He tried four or five of them. Of course, he didn't leave the country.

Mr. CRAWFORD. We have many large banks in Philadelphia that would be glad to extend additional lines of credit to their customers were they able to do it.

Mr. OLDFIELD. I am inclined to think that is true, generally, all of them practically. But it seems to be a very critical situation when that man has that sort of collateral and that much collateral and can't get money on it. Can't get it in the community in which he lives and only half a dozen banks in town. But, of course, that is another indication that I don't know anything about the situation. I don't know what brings it about.

Mr. CRAWFORD. I am not an expert on banking, gentlemen. There are other men here who may give you a great deal more information on that than I can.

Mr. OLDFIELD. The Federal Reserve Board may have a perfectly good reason for it. I don't know.

Mr. CRAWFORD. But it remains a well-known fact that the rate for loans——

Mr. OLDFIELD. It simply shows that everything that you have been telling us here, shows that we have got a very bad situation.

Mr. CRAWFORD. No doubt about that. There is just one other feature I would like to call to your attention and that is the necessity of providing some means of financing home buyers along the lines of the farm loan act. There is no reason that I can conceive of why the worker in the city should not have the same preferential treatment that the farmer has.

Mr. OLDFIELD. I agree with you.

Mr. CRAWFORD. If we are to continue exemption of farm loans, I believe that we should establish some means of exempting the loans or furnishing the funds to permit our urban dwellers to purchase their homes on a basis that they can afford and a basis that is entirely safe.

Mr. OLDFIELD. That proposition, you know, is tied up in the courts now. Farmers can not borrow any money.

Mr. CRAWFORD. I understand so.

Mr. OLDFIELD. I get letters about that every day. It is tied up in the courts and they can't get any money.

Mr. WATSON. I understand you are a builder of six-room houses.

Mr. CRAWFORD. Yes; five and six rooms; yes.

Mr. WATSON. Would the workingmen in Philadelphia be content to live in tenement or apartment houses?

Mr. CRAWFORD. Not if they can obtain individual homes. The workmen have been forced into the tenement houses and apartment houses during the last year, largely of the type that have been converted from old dwelling houses, and they are not at all satisfactory for housing workmen.

Mr. WATSON. Houses for workmen, their character and their modes of life. In your opinion, are the morals of the workmen who live in their own homes higher than those residing in apartments or tenement houses?

Mr. CRAWFORD. The standard is very much higher. Not only that but their offspring is of a very much better type. I think if you would consult the school authorities you would find that the children who come from individual homes are of a very much better class than those who come from the congested tenements. Therefore, I believe it is a very vital question to the future of the country to properly house our workingmen, because after all, gentlemen, they are the men who are producing the future citizens of this country and we must not lose sight of that.

Mr. WATSON. If the member of the committee has no question, we will be glad to hear Mr. Wilson, president of the Philadelphia real estate board.

STATEMENT OF MR. WILLIAM H. WILSON, PRESIDENT OF THE PHILADELPHIA REAL ESTATE BOARD, VICE PRESIDENT OF THE NATIONAL ASSOCIATION OF REAL ESTATE BOARDS, PHILADELPHIA, PA.

Mr. WILSON. Mr. Chairman and gentlemen, in speaking of the situation as I see it, I express to you the result of a study by the real estate men who are organized in Philadelphia, and also the real estate men who are organized throughout the United States. The real estate men who are organized are composed of members of real estate boards, of which there are 225 belonging to the national association, most of them in the United States and a few in Canada.

The Philadelphia real estate board has been in existence since 1908 and, during the period from 1908 to the present time, has made a very careful study of all problems that naturally confront the real estate men and the people of the community. Problems of legislation, taxation, and more particularly housing problems have received their careful study.

This housing problem is probably the greatest problem that we have ever been confronted with, because it has so many complexities and so many difficulties that seem insurmountable. For months past we have worked to eliminate the obstacle which has developed the shortage of houses, and that vital obstacle has been the financial assistance which is so greatly needed. The matter of labor, the matter of materials, the matter of local improvements and all things of nature enter into the solution of the housing problem, but almost every one of those matters can be solved locally, provided financial assistance were offered, but financial assistance in Philadelphia is lacking just as it is in all parts of the country when it comes to building homes, commercial properties, or factories.

For many years past we have been able to get money through certain sources. The principal sources for borrowing money on real estate mortgages were trust companies, life insurance companies, fire insurance companies, building associations, and private investors.

All of these seemed to look upon mortgages with a favorable eye. Mortgages in Philadelphia, that great city of homes, were very popular, for in philadelphia we have 384,000 individual homes. Now, that is a greater number than exists in any other city in this country, or any other city in the world. And most of those homes are mortgaged. Ninety-odd per cent of the homes in Philadelphia are mortgaged, and the funds for the mortgages were procured through the sources I have just named, but during the past few years there has been an evolution going on in the minds of the mortgage investors and there has developed a reluctancy to loan money on mortgages. I attribute this evolution largely to the Federal income tax, which has lessened the net return of the investor who has therefore sought other fields of investment which might yield more than mortgages would yield. A habit has been formed, due to the income tax imposition, if you please, whereby other forms of investment are preferred and mortgages no longer seem to be desired. Until several months ago, when higher rates of interest were offered on other forms of security, we had some slight opportunity of getting money through the channels named, but when higher rates of interest were offered for other forms of security, many of which were partly tax free, and liberty bonds still remain tax free, the investor desired nothing but those things that would yield him the greatest net return. So the investors of our city have absolutely refused within the past several months to loan money on mortgages, and we see no signs of their coming back into the field again as the logical investors in mortgages.

That is the condition that we meet to-day. That is the condition that prevails throughout the entire country. Every means of solving the housing problem has been delved into carefully by the real estate men, but this is not alone a real estate man's problem; it is a problem that reaches out and touches the heart of every business man in the country, of every citizen in the country, because it is probably dearer than anything else that we have as a possession. It has fallen to the lot of the real estate men, however, to solve it, and if it can be solved through any suggestions or constructive thoughts we might advance, we are going to do it.

In speaking to you gentlemen we come to practically the last place of resort. Everything, apparently, up to this time, has been done to obtain some light, to find some way of offering a solution. It has not been found elsewhere and therefore we appeal to the United States Government to help us solve this great big problem. Philadelphia is very anxious to solve it. We would like to present something concrete, something which might go forth to the people of the Nation as a real solution of the problem, because Philadelphia has been first in over a hundred things, and through the great minds of her people she has developed many new and beneficial ideas for humanity.

The real estate fraternity believes that this is the place from which this whole problem can be solved. We are not appealing to you vainly or without justice, for we only have to look over across the sea to France and England and we find those governments have listened to the cry of the people, have come to the rescue and have offered their support freely in the interest of the whole people.

Mr. OLDFIELD. In the way of home building?

Mr. WILSON. In the way of advancing money; in the way of home building. This problem is spread out oll over the world. It is not local.

Mr. OLDFIELD. Can you get a copy of their laws on this question?

Mr. WILSON. There is data published. There have been a number of articles that have appeared, and I think it would be well if the committee had copies of them in its possession.

Mr. OLDFIELD. We can't always depend on what is published in the papers. It would be so much better if we had a copy of the laws. Now, I have been trying for some days—some weeks, in fact—to get a copy of the sales tax law of France, and also of England and Canada, and the Treasury Department couldn't even furnish it; but if we are going to consider something like that we ought to have those laws.

Mr. WILSON. I would suppose that copies of those laws are obtainable.

Mr. OLDFIELD. Mr. Chairman, will you try to get them?

Mr. WATSON. Yes.

Mr. WILSON. They will be very interesting, no doubt. I should like to see them myself.

Now, I would like to go just a little farther. If England and France recognize the importance of this subject, and if the United States Government should recognize the importance of it and its far-reaching effect upon her people, then I believe that we can solve the problem with the Government's cooperation.

The bankers, generally recognized as financial institutions, have had one thought in their minds, which has been to earn the greatest interest that it is possible to earn for their stockholders. They have apparently failed to recognize the interest they owe to the community in which they do business—and I speak of the majority of cases—there are some exceptions, however—and instead of loaning the money out freely to the depositors from whom they get the money, they say, "No; we loan our money in some of these other forms of security that pay us much more." That is, the bankers pay the stockholders much more, but they do not loan back to the people the money they get from the people, who are represented by their depositors. Philadelphia is particularly unfortunate in that respect, because in our study of the subject we find that the savings fund companies, which have thousands and thousands of depositors, loan very little on mortgages. For instance, one large savings fund company in Philadelphia has 40 times as much invested in stocks and bonds as it has in real estate mortgages. Another savings fund company which gets its money from the small depositors, who are natural home owners—or at least we want them to be if they are not—has 20 times as much invested in stocks and bonds as it has in mortgages.

Mr. WATSON. Because they wanted securities upon which money could be raised quickly?

Mr. WILSON. The matter of having liquid assets in times of stress to be prepared for a run on a bank is probably a very desirable thing, but the question always arises in one's mind: How much liquid assets should a bank really have in its possession? As an illustration take the savings-fund companies of New York. In 1918 54 per cent of

their resources were invested in mortgages; in 1919 47½ per cent, a difference of 7 per cent, due to the investment they made in Liberty bonds. My authority for that statement is Mr. George W. Norris, governor of the Philadelphia district of the Federal reserve bank. In Philadelphia the same character of business concerns, that is, savings bank or savings-fund companies—whatever you want to call them—have less than 5 per cent of their resources invested in mortgages. There is no law which controls the amount of resources that should be invested in mortgages. There is no way of telling, that I know of, how much of the resources should be invested in liquid securities and how much should be invested in mortgages, but there should be some way of determining that. There should be some regulation, in my judgment, that would compel those companies to loan a certain amount on mortgages. These companies I regard as public utilities companies, although they are not so regarded by the stockholders or the community generally, but I believe they are public utility companies, because they render a service to the community. There is no way by which they can be compelled to lend a certain amount of their money on mortgages, therefore they loan their money where they can get the greatest return, and they can get the greatest return on things like Liberty bonds and 7 and 8 per cent securities. They can not obtain that on mortgages because of the income tax which is imposed upon mortgages.

Now I believe, gentlemen, if you will exempt mortgages from the Federal tax that will be the greatest thing the United States Government can do to relieve the housing situation. I believe it will be the solution of the housing problem and the only solution. Therefore I urge you as the representative of the Philadelphia Real Estate Board to do all you can to expedite the proposed legislation.

I do not favor any particular one of these bills, because I do not see why the amount should be limited to $40,000 or $50,000. I think all mortgage on real estate, a public utility, should be exempt from taxation at the present time.

Mr. Watson. What plan would you suggest to raise revenue to offset the exemption?

Mr. Wilson. I have no solution, but I think the Government has more to consider at this time than the matter of the revenue involved. Real estate now bears more than its just share of taxation. We all know that the real estate wealth of the Nation amounts to about 50 per cent of the total wealth of the Nation, and we know that real estate bears 85 per cent of the burden of taxation. That is not including the Federal income tax. There should be some relief afforded, because the stability of the country is built up with the real estate, and if you cease development of the real estate you cease the real development of the Nation.

Mr. Watson. There is business depression all over the country, as will be acknowledged. It was an old rule, in a period of depression, people purchased real estate. Do you think if conditions adjust themselves within a few months the money will be invested in mortgages?

Mr. Wilson. I see absolutely no relief in sight at the present time. Relief could be obtained if a method could be provided, and the only method offered is through the Government of the United States. Such relief would not be local, but would reach to the four corners of our country, whether it be given through the Federal reserve bank or by the plan before you. I am interested in nothing but the plan that is offered for your consideration now, which is to exempt real estate mortgages from taxation.

Mr. Oldfield. How well distributed are the bonds which you speak of here—mortgages in the city of Philadelphia generally? Are they owned by big people or little people, or both?

Mr. Wilson. You are speaking of mortgages, I take it?

Mr. Oldfield. Yes.

Mr. Wilson. Millions of dollars—hundreds of millions of dollars—have been invested in mortgages in Philadelphia on all classes of real estate. They are held by the various institutions or classifications of institutions I have named, such as trust companies, life insurance companies, fire insurance companies, building associations, and individuals, large and small.

Mr. Oldfield. Do you have it arranged so that a man can go to you, to one of these companies and buy a $1,000 bond, mortgage bond?

Mr. Wilson. Yes; they will assign their bonds or the mortgages by sale, and the way it is done is this: If a man wants to build a house he goes to one of these companies or associations—whichever it may be—and asks for a loan of so much money on the property he is building. They offer to loan him a percentage of the amount asked, which gives them an adequate margin of security. Up to recent times the recognized basis was 60 per cent of the value of the property, leaving 40 per cent margin for security. The amount allowed was based on the proper appraised value of the property, and the mortgage was then secured upon the real estate accompanied by a bond. To-day the borrower can not obtain money on a mortgage because there is no place he can go to get it. Hundreds of millions of dollars that are secured on Philadelphia real estate are now in jeopardy because of the great danger of the holders of the present mortgages calling their loans to reinvest them in other forms of security. Heretofore we have had millions of dollars of trust funds available for mortgage purposes, through stipulation in wills and through the provision that they be invested in legal securities. The trust estates, where they have the right to do it, are now calling in their funds and practically threatening the property owner with foreclosure proceedings and the loss of his holdings if the principal is not paid in accordance with the demand. If high interest rates on other forms of security continue, and if the income tax prevails much longer, I anticipate that hundreds of property owners in Philadelphia will be subjected to the pressure of the mortgagee, who demands payment of his principal in order to enable him to invest it in other and more profitable securities. That is an alarming situation, the ultimate result of which can not be pictured if it is allowed to continue.

Mr. Oldfield. I don't see for the life of me how this particular bill would relieve the situation. I can see how it would benefit you some, but I don't see how it would absolutely relieve that situation, because, as I said a while ago, there are so many gilt-edged securities that you can get 7 or 7½ per cent return on.

Mr. Wilson. To which particular bill do you refer?

Mr. OLDFIELD. Take the McLaughlin bill. That provides "on an aggregate principal not to exceed $40,000 of loans secured," and "bearing interest at not to exceed 5 per cent per annum."

Mr. WILSON. I don't like that bill at all. There should be no stipulation as to the interest. That should be stricken out altogether.

Mr. OLDFIELD. And the other gentleman said these bonds usually bear a rate of interest of about 6 per cent, I believe.

Mr. WILSON. Well, our legal rate in the State of Pennsylvania is 6 per cent. That is the limit.

Mr. OLDFIELD. And of course they would have to be put on the market below par in order to compete with these 4¾ per cent Liberty bonds.

Mr. WILSON. Exactly. Now, gentlemen, to prove to you that we are not alone in our opinion as to the wisdom of giving serious consideration to this legislation, the Philadelphia Real Estate Board communicated with many of the largest trust companies and life insurance companies in Philadelphia, asking their opinion regarding the bill. These companies were large investors in mortgages, and I have before me a number of letters from these companies which I would like to present to you for your consideration. They are favorable and they state most decidedly that this is the solution.

Mr. WATSON. How many letters have you?

Mr. WILSON. There are about 15 here. They include the Provident Life & Trust Co. and quite a number of large institutions.

Mr. WATSON. You have permission to place them in the record.

Mr. WILSON. I would like very much to do so.

Mr. WATSON. Give them to the clerk and they will become a part of the record.

Mr. WILSON. All of these letters set forth for your consideration the arguments in favor of the elimination of this tax.

(The letters referred to follow:)

PROVIDENT LIFE & TRUST CO. OF PHILADELPHIA,
Philadelphia, Pa., September 14, 1920.

Mr. EDGAR G. CROSS,
Chairman Committee on Legislation,
Philadelphia Real Estate Board, Philadelphia, Pa.

MY DEAR SIR: Yours of the 13th instant is received, and I note what you say as to a bill being now before the committee providing for the exemption from Federal income tax of income upon $40,000 of mortgage loans.

Whatever can be done in the way of relieving such investments from taxation would meet our hearty approval, because as matters now stand the situation is such that it is almost prohibitive for us to invest in real estate mortgages for the company itself. Our State law prohibits charging more than 6 per cent interest, and under present Federal and State laws the tax on a 6 per cent mortgage would be one-sixth of the income, making it a 5 per cent investment. You can hardly expect us to invest in mortgages at 5 per cent when we can buy, say, the fourth Liberty loan on a 5.60 basis.

Very truly, yours,

ASA S. WING, *President.*

REAL ESTATE TITLE INSURANCE & TRUST CO. OF PHILADELPHIA,
Philadelphia, Pa., September 13, 1920.

Mr. EDGAR G. CROSS,
Chairman Committee on Legislation,
Philadelphia Real Estate Board.

DEAR SIR: You ask my opinion upon the bill now pending in the House of Representatives exempting from income tax mortgage loans up to $40,000. I can very briefly state my opinion and the reasons for it.

Nothing is more necessary at the present time than to popularize mortgage loans. There is of course a great shortage of new houses in all cities, but the inability to borrow on mortgage prevents the purchase of houses already built. Mortgages have always, until recently, been a favorite form of investment—there has been more mortgage money than mortgages. It is so no longer. The reason is obvious. Investors can get higher returns with less trouble elsewhere. I believe the passage of this measure would materially relieve the situation and make home-buying once more possible, and this is most desirable from every point of view.

Very truly, yours,

FRANCIS A. LEWIS, *President.*

CENTRAL TRUST & SAVINGS CO.,
Philadelphia, Pa., September 13, 1920.

Mr. EDGAR C. CROSS,
Chairman Legislation Committee,
Philadelphia Real Estate Board,
Philadelphia, Pa.

DEAR MR CROSS: Replying to your letter of the 11th inst., it is our opinion that the bill exempting mortgages up to $40,000 from Federal income tax should have the earnest support of every one.

As you know, we have building through our company numerous operations of homes in the city of Philadelphia, and lately it has been very difficult to get investors to purchase mortgages after completion, which is due entirely, in our opinion, to the income return, which is very much less than on many forms of Government, railroad or industrial investments. There is only one way to correct this situation and that is to make mortgages more attractive.

Hoping that the Philadelphia board may be successful in satisfying the legislators of the importance of this move, and appreciating the splendid work the board is doing to improve the housing situation, I am,

Very truly, yours,

T. C. HUNTER, *President.*

STAR SAVINGS BANK,
Philadelphia, Pa., October 14, 1920.

EDGAR G. CROSS,
Stock Exchange Building,
Philadelphia, Pa.

MY DEAR MR. CROSS: Your recent letter regarding the proposed legislation to exempt the holder of $40,000 of mortgage loans from taxation was received.

In view of the present drastic need of mortgage money and the great demand which will exist in the future to encourage building, I fully indorse the proposed measure, which is justified in view of present conditions.

It will, in my judgment, draw to this form of investment much money which would otherwise seek other channels.

Sincerely, yours,

ROWLAND COMLY, *President.*

GERMANTOWN TRUST CO.,
Philadelphia, Pa., September 25, 1920.

Mr. EDGAR G. CROSS,
Chairman Committee on Legislation,
Philadelphia Real Estate Board, Philadelphia, Pa.

DEAR SIR: Replying to yours of the 24th instant, would say that to my mind undoubtedly the agreement proposed would have a tendency to make more money available for mortgage loans.

We often hear people say: "Mortgages at most yield but 5.6; why should we put our money in mortgages, when the rate for good investments for some time past has been 6½ to 7 per cent?"

Very truly, yours,

WM. T. MURPHY, *President.*

INTEGRITY TRUST CO.,
Philadelphia, Pa., October 4, 1920.

MR. EDGAR G. CROSS,
Chairman Committee on Legislation,
Philadelphia Real Estate Board, Philadelphia, Pa.

DEAR SIR: Replying to your recent communication concerning the exemption from Federal income tax upon $40,000 of mortgage loans, I beg to advise you that the greatest objection we have found to the sale of mortgages to our clients, has been on account of the rate of interest on this type of investment, as compared to that obtainable on other securities. In so far as the net return would be increased by the exemption from the Federal income tax, the passage of the proposed act might aid the placing of mortgages, but I think that the tax the average mortgage investor feels most, and that to which he objects the more, is the Pennsylvania State tax of 4 mills.

I feel certain that if a bill exempting mortgages to a limited amount from the State tax could be put through our legislature, the effect would be far more reaching than the benefit which would accrue from the passage of the present bill in Congress.

Yours, very truly,

PHILIP E. GUCKES, *President.*

EXCELSIOR TRUST CO.,
Philadelphia, Pa., September 27, 1920.

PHILADELPHIA REAL ESTATE BOARD,
Philadelphia, Pa.

Attention: Edgar G. Cross, Esq., Chairman Committee on Legislation.

DEAR SIR: In reply to your circular letter of the 24th instant, would state that in our judgment the suggestions set forth are extremely commendable. General financial conditions seem to have reached such a stage as to render mortgage investments undesirable, a form of investment which should have precedence above all others, inasmuch as all enterprises are fundamentally based upon the home, and particularly the American home. Therefore we conclude that in order to foster all institutions some method must be devised whereby the home buyer and the mortgage investor shall be mutually encouraged.

We believe your suggestions to be good, and if enacted will go a long way toward remedying the situation.

Very truly, yours,

F. W. PRICE, *President.*

NORTHERN CENTRAL TRUST CO., OF PHILADELPHIA,
Philadelphia, Pa., October 5, 1920.

EDGAR G. CROSS, Esq.,
Chairman of Committee on Legislation,
1126 Walnut Street, Philadelphia, Pa.

DEAR MR. CROSS: Replying to your favor of October 1, 1920, I wish to state that I hardly feel qualified to give you an opinion of any value relative to the House bill providing for the exemption of Federal income tax of income upon $40,000 of mortgage investments.

It seems self-evident, however, that the passage of such a law places first mortgages in a class with Government bonds already provided for to the extent of $40,000 so far as income is concerned, and there should be an immediate demand for first mortgages from estates, individuals, and corporations having a large income.

The relief thus afforded the real estate market would be very marked, and I have an idea it would go a long ways toward promoting the construction of new dwellings.

Yours, very truly,

WALTER GABELL, *President.*

PARKWAY TRUST CO.,
Philadelphia, Pa., Otocber 19, 1920.

PHILADELPHIA REAL ESTATE BOARD,
Philadelphia, Pa.

GENTLEMEN: Your letter of October 1 has been received and read to our board of directors. The board of directors are unanimous in stating that the law you suggest, we believe will induce individuals to invest in mortgages and thereby relieve housing situation. We are in accord with your suggestion and would like to have such a law passed.

Respectfully,

A. C. YOUNG, *Secretary-Treasurer.*

FIDELITY TRUST CO.,
Philadelphia, September 17, 1920.

MR. EDGAR G. CROSS,
Chairman Committee on Legislation,
Philadelphia Real Estate Board,
Philadelphia.

MY DEAR MR. CROSS: In reply to your letter of the 13th instant, about the proposed bill, in the House of Representatives, providing for the exemption from the Federal income tax upon $40,000 of mortgage loans, I write to say that, while I do not think that measures providing arbitrary limits of taxation are economically correct, yet under the present circumstances, I think it is right that the Government should, as a temporary measure, encourage the loaning of money for building purposes, either in this or some other way.

Yours very truly,

WM. P. GEST, *President.*

ROBERTS, MONTGOMERY & MCKEEHAN,
Philadelphia, September 13, 1920.

EDGAR G. CROSS, Esq.,
Chairman Committee on Legislation,
Philadelphia Real Estate Board, Philadelphia.

DEAR MR. CROSS: I think that everyone who is acquainted with the mortgage situation in this vicinity feels that any action that can be taken which will stimulate the loan of money on mortgages will greatly assist in the rehabilitation of the building business and help to redress the tremendous deficiency of homes and business buildings which now exists.

If the proposed legislation exempting from Federal income tax $40,000 of mortgage loans should become law I think it would have a tremendous and beneficial effect in this regard. It would make it possible not only for builders and home owners to borrow at a reasonable rate, but it would turn into the mortgage channel capital which is now going elsewhere. This is, in my judgment, of extreme importance, and unless some such method of stimulating the making of mortgage loans should be adopted I do not see how the situation can be helped.

Yours, sincerely,

OWEN J. ROBERTS.

MASON & EDMONDS.
Philadelphia, September 13, 1920.

MR. EDGAR G. CROSS,
Philadelphia Real Estate Board,
Philadelphia.

MY DEAR MR. CROSS: I beg to acknowledge receipt of your letter of September 10, and in reply to advise you as follows:

I am in favor of such a revision of the Federal income tax law as will exempt from taxation the income from a minimum amount of mortgages upon realty. I think well of your suggestion of an exemption upon $40,000 worth of mortgages, but would need the aid of statistical information before committing myself to this figure as a limit.

I am in favor of this exemption for the following reasons:

First. I understand that the shortage of dwelling houses is nation-wide in its extent. Something must be done, therefore, to make the building of homes attractive. This can not be done without adding to the attractiveness of the mortgage as a method of investment.

Second. In many of the States the interest upon a mortgage is limited to 6 per cent. At the present time the French Government is offering an attractive series of bonds at 8 per cent. The prudent investor, therefore, is discouraged from investing in mortgages and this is making it increasingly difficult for those who desire to own their own home to finance the purchase. It will probably be very difficult, if not impossible, to secure action by the various States increasing the rate of interest on mortgages. It would be better to meet the situation by making mortgage investments attractive through exempting a portion of the income from the Federal income tax.

I believe that such regulation as you propose will make more money available for mortgage investments, and thence increase the number of building operations and the possibilities of home ownership.

With sincere regards,

Yours, faithfully,

Franklin S. Edmonds

Hepburn, Dechert & Norris,
Philadelphia, Pa., September 13, 1920.

Mr. Edgar G. Cross,
Philadelphia Real Estate Board, Philadelphia.

My Dear Mr. Cross: I have just received your letter of the 10th relative to the proposed congressional bill, exempting from Federal income tax the income upon mortgage loans to the amount of $40,000 (principal). At first blush it might seem that this proposed legislation was an unfair discrimination in favor of one class of investments as against others, and this is the way it first appeared to me. Upon consideration, however, I am convinced that my original impression was wrong.

In the first place, taking the maximum legal rate permissible, the first mortgage is at a disadvantage in comparison with other classes of securities. It may not bear a rate in excess of the legal rate and can not be placed at less than par without subjecting the lender to the usury law. This, taken in connection with the difficulties in which the owners of real property in large communities are confronted under present conditions, has made the first mortgage, at least in the principal communities, almost an undesirable, certainly not a popular, form of investment.

And, secondly, and by far the more important consideration is that, through the difficulty now experienced in the placing of first-mortgage loans, the housing and rental situation, at least in the larger communities, is being made daily more acute. The necessary building which the needs of the communities demand is not going on and can not go on unless mortgage moneys are provided. They are more than difficult to secure at the present time, and I doubt if anyone knows better than yourself the depressing effect this has upon the whole situation. A measure such as proposed would tend to make mortgages a more desirable class of investment, and I personally feel that it would be a great step in the right direction to relieve the general situation.

Yours, very truly,

C. J. Hepburn.

Jacob S. Disston,
Philadelphia, October 13, 1920.

Edgar G. Cross, *Chairman,*
Philadelphia, Pa.

Dear Sir: I am in receipt of your letter of the 7th instant, and beg to say that I am in favor of any just legislation that will aid and assist in the building of homes in our city.

There should not be any objection to a reasonable exemption of Federal income taxes for a certain prescribed time. Undoubtedly, when the investor in mortgages can be assured of a return equal to the present high rates on good notes and bonds of railroads and industrials the more likely he is to put a greater portion of his funds in good real estate mortgages.

I am,

Very truly, yours,

Jacob S. Disston.

Mr. Oldfield. I don't believe you have told what proportion of these mortgages are held by the small investors. I was wondering if they are pretty widely held. Now, take Liberty bonds, for example. Secretary McAdoo stated here once, I believe, that 20,000,000 people had bought Liberty bonds. I was wondering if the little fellows that have $1,000 or $2,000 to invest have been in the habit heretofore of investing in this particular kind of security or whether the big companies, like the trust companies you speak of, have been handling them.

Mr. Wilson. The percentage would be small, but there were such investors in these mortgages in Philadelphia when mortgages were more popular. The enormous volume of financial aid comes from the large corporations.

I thank you, gentlemen.

Mr. Watson. At this time I will read into the record a telegram from the governor of Pennsylvania:

> Your letter is at hand. I have no one whom I can very well send to Washington to-morrow to attend the hearing. Am obliged to be in New York at the Pennsylvania Society dinner, so will be unable to go to Washington personally. I think that some discriminations in favor of mortgages on investments in farm and home property would be very useful. Thanks for advising me.

At the same time I would like to introduce a resolution passed by the National Association of Real Estate Boards.

(The resolution referred to follows:)

Whereas, as already declared by the National Association of Real Estate Boards, representing 219 boards from every State in the Union, assembled at Kansas City, Mo., June 1, 1920, a national emergency exists in the housing conditions in all centers of population largely aggravated by the drainage of mortgage money from the market, due to Federal income tax on real estate mortgages and the investment now of funds formerly available for real estate mortgages in tax-free municipal, State, and Federal Government securities: Therefore be it

Resolved, That the committee on national legislation of the National Association of Real Estate Boards urge the immediate passage by Congress of an amendment to the Federal tax laws exempting the income from mortgages, secured by real estate (except the real estate of public utility corporations) from the Federal income tax, for a period of five years from December 31, 1921: And be it further

Resolved, That it is the opinion of the committee on national legislation of the National Association of Real Estate Boards that such action will do more to alleviate the housing shortage than any other action that can be taken.

Thomas Shallcross, Jr.
H. H. Garfield,
M. A. Devine,
Bruce Bowe,
L. T. Palmer,
Wm. E. Ferguson,
A. J. Kelly, Jr., *Chairman,*
Legislation Committee.

Mr. Watson. I see Mr. Hutchinson is here. He has presented a bill which we have made a part of the hearings. Would you like to be heard in connection with it, Mr. Hutchinson?

STATEMENT OF HON. E. C. HUTCHINSON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW JERSEY.

Mr. HUTCHINSON. Mr. Chairman and members of the committee, I do not know that I can add very much more to what has already been said during the hearing. I do, however, want to say that these bills will remedy another condition.

In the district that I represent most of our mortgages are loaned by small people. We have no trust companies there, although we do some loaning—no large ones. But the condition there with us is like this: A great many of our mortgages have been loaned at 5 per cent. Those mortgages are all being called in now, and there is a great deal of distress because they can not get any mortgage money, on account of the income tax. Mortgages up to the amount stated in my bill, $50,000, only net the loaner 4.12 per cent. The consequence is that they are loaning their money in other ways, and we have got to do something.

I think the Government ought to do something to encourage mortgage money, so that people can build homes, and also not to be disturbed by people calling in their loans, which they are doing in our section very rapidly. This has resulted in homes not being built, three or four families living in a home, and it is not a good thing to do, and we ought to have some encouragement whereby mortgage money will not be called in, so that we can get money for this purpose and so that the man who is loaning money can get a fair interest on his money.

I do not know that I have anything more. I want to say that I have a telegram here from our chamber of commerce, indorsing the bill.

Mr. WATSON. That may be put into the record if you so desire.

(The telegram referred to follows:)

TRENTON, N. J., *December 10, 1920.*

Hon. E. C. HUTCHINSON,
Washington, D. C.:

Your bill to relieve housing conditions was indorsed by Trenton Chamber of Commerce directors last night. Will not be represented at hearing.

HARRY D. CONOVER.

Mr. HUTCHINSON. That is all I have.

Mr. WATSON. We will now hear Mr. John C. Williams, of Philadelphia.

STATEMENT OF MR. JOHN C. WILLIAMS, VICE PRESIDENT OF THE PHILADELPHIA REAL ESTATE BOARD, PHILADELPHIA, PA.

Mr. WILLIAMS. Mr. Chairman and gentlemen of the committee, I am the first vice president of the Philadelphia Real Estate Board and came here with Mr. Wilson representing that organization. Mr. Wilson has outlined our position very clearly and I do not know what I might add, except that I would like to answer, if possible, the question asked by Mr. Oldfield with reference to the number of small holders of mortgages. While I can not give you figures, I know from my own experience—that is the principal part of my business, dealing in mortgages in Philadelphia—that mortgages were always attractive in small amounts to small investors until the Liberty bonds commenced to sell at such figures that they yielded good returns. I know of many instances where persons with $1,000 to invest would say: "I am going to buy a Liberty bond. It is free from taxation." And I could not make a convincing argument against that proposition. It isn't a question of the rate of interest to-day. In my opinion, if the legal rate of interest were increased it would only add to rather than solve the difficulty, because the commercial interests would bid higher for the money. That is not what we want. What we do want is relief from the burden of this taxation, which will ultimately come back to the small fellow, and make it more attractive for him to invest in what, in my judgment, is the very bone and sinew of the country, and that is mortgages on homes. If we can not encourage home ownership, what is going to happen to the citizenship of the country?

Mr. OLDFIELD. That ought to be done, undoubtedly.

Mr. WILLIAMS. That is what should be done. If this Nation is to exist it must exist through that citizenship represented by the home owners of the Nation. Make a man the owner of his home, and immediately he becomes a better citizen. The foreigner, for instance, who comes here and buys a home becomes a citizen in the broad sense, and that cures any bolshevik ideas he might have, because owning property in this country, he is going to protect it.

There was a time when mortgages were attractive, but they have ceased to be attractive to a large extent, due to just this very tax. Take off the tax, help us to sell our mortgages, and we will build homes.

Mr. OLDFIELD. In other words, if they were tax exempt and you had 6 per cent in the mortgage you wouldn't have any trouble?

Mr. WILLIAMS. No, indeed; we would not.

Mr. OLDFIELD. While there are other investments that pay more than that, yet you would have no trouble?

Mr. WILLIAMS. I think not, because the mortgage is always looked upon as a safe investment. I talked to a man not long ago, a large banker, as to the desirability of mortgages as investments, and he said, "There isn't a better security anywhere. It is absolutely safe; your margin is ample to protect you; your security is beyond question desirable, but it is just the yield on it, and naturally money goes where it gets the most return."

We appeal to you to-day because we feel that it is the duty of the Federal Government to help out in the situation which threatens the whole country. If we can not sell mortgages we can not build homes. That is the whole sum and substance of it.

Mr. OLDFIELD. We are in this situation in my part of the country: The thing that we need down there above nearly everything else is roads, good roads. Of course, you have them in the East, but we don't have them in the West or South, and most of their bonds, all I saw of them when I was home, bear a rate of interest of 6 per cent, and they could not sell them. Of course, they are tax exempt. The situation is very bad now but we hope it will be better.

Mr. WILLIAMS. What is the necessity for roads if you do not have houses for people to live in?

Mr. OLDFIELD. Of course, people in the country have their own homes.

Mr. Williams. Yes; but I dare say that even in your section they have difficulty in placing their loans under prevailing conditions.

Mr. Oldfield. Absolutely. They can't borrow at all now, from the banks or anybody else. And they can't sell their road securities.

Mr. Williams. We appeal to you to-day, gentlemen. We feel that if there is any bill—if this bill, H. R. 14473, with the $50,000 limit taken out, or any other bill—which will exempt from taxation the income on mortgages this Congress should act favorably on it as speedily as possible.

There is nothing more that I care to say.

Mr. Hutchinson. Mr. Chairman, in connection with the bill which I introduced my attention has been called to the advisability of leaving out the limit of $50,000. I have no objection to that, because the more money we can get for mortgage loans the better it will be for the good of the country in relieving the present housing situation. If a man has $100,000 and does not let it out it does not net him more than $2.47, and $500,000 brings it down to $1.70. I have no objection at all to leaving it blank in reference to the amount. In fact, I think it would be better for the country if we can do that.

Mr. Watson. The gentleman we will now hear, is Mr. Walter Stabler, if it is his pleasure.

STATEMENT OF MR. WALTER STABLER, COMPTROLLER METROPOLITAN LIFE INSURANCE CO., NEW YORK.

Mr. Chairman and gentlemen of the committee, I am not appearing here for the Metropolitan Life Insurance Co., but for the Real Estate Board of the City of New York, of which I am a director. My occupation, however, is that of real estate officer of the Metropolitan Life Insurance Co., and I have charge entirely of the mortgage loans made by the company and I have been brought in contact, particularly during the past year or more, with every part of the country, from Seattle to Boston and from Miami to San Diego. I have been in communication with 150 cities and I have the same report from every part of the country. My business is entirely in city loans, in which our company has a very large part of its assets invested. I have talked with many real estate men and bankers and they all give me the same story—that there is no money in their section for mortgage loans, and when I ask the reason for this I get the invariable answer that it is because of the income tax, which is quite burdensome, particularly to some holders of mortgages.

When a holder of mortgages has any considerable amount invested his sole desire, under the present conditions, is to cash these mortgages as soon as possible and to reinvest his money in nontaxable securities or securities that pay a higher rate of interest. Most of these latter investments, I have no doubt, are probably good, but I am afraid that some of the money, in fact a good deal of it, is being placed in investments that are not good, and this applies particularly to the people who can not afford to lose the money. I think that is one of the things that should be given very careful consideration, so as to safeguard as far as possible this change of investments from mortgages, which is one of the oldest, one of the best understood, and one of the safest forms of investment.

Mr. Watson. There is great individual wealth in Philadelphia. Do you know personally of instances where men are selling mortgages and buying other securities?

Mr. Stabler. I know they are selling mortgages, Mr. Chairman. One of the most notable instances is that of Col. Green, son of Hetty Green, who was left $15,000,000 of investments in the very best of New York City mortgages. He raised the rates of interest, as he was able, to 5½ and 6 per cent, and when he had finished paying his income tax for 1918 last year, he had 1⅝ per cent left of that income. He paid the brokers a commission to replace these mortgages, and he paid all the fees, so that the people who owned the properties were not put to any expense, so anxious was he to get out of this form of investment. And all of these loans, almost without exception, were placed with savings banks. That money going out to savings banks prevented any possible use of it for other purposes—for new loans or for construction loans.

While banks can not make construction loans, they do make loans on new houses after they are finished. The real estate board obtained the records for the first six months of this year, from January 1 to July 1, of mortgages that were assigned in the boroughs of Manhattan and Bronx, by the owners or the holders of mortgages that were taxable, to institutions that were not taxable, and the amount was nearly $60,000,000 for the six months. Every day I hear of holders of mortgages calling in mortgages and giving invariably this reason, that the income tax is so heavy that they must get the money into other forms of investment. While I have no means of saying where they go, we do know that there are other forms of investment, nontaxable forms of investment, municipal, State and other things, Liberty bonds, and so on, from which they can get a very reasonable income. Now, please understand that I am not pleading to-day for the investor; the investor can take care of himself. I am pleading for the owners, for the man that must borrow and who is not able to borrow as he formerly could and as he is entitled to do. I have applications, many of them every day, from people who want to replace their investments, where mortgages have been recalled. We can not take them all. We can not take a small part of them; and always, gentlemen, the reason is given that the owner wants to invest in some other way. Now, from my experience, which, as I have tried to show you is a very wide one because of my business, I believe, and I believe from the bottom of my heart, that the one thing Congress can do to help more than in any other way the housing situation in this country, is to relieve mortgage incomes from taxation, and to leave it without limit. If, as is proposed in three of these bills, a limit is imposed as to the amount for which mortgages may be made, that isn't going to help the situation very much. The small owner, the man who holds only a few thousand dollars in mortgages, is not hurt particularly by the income tax. It is the larger holder, the man who has to pay 15, 20, or 25 per cent, and even 73 per cent of his income to the Government, who is hurt, and he is the man who is going to get out just as soon as he can with his money and go to the life insurance companies and savings banks.

The savings banks are not taxed at all. The life insurance companies are taxed on their net incomes. So that, so far as the life insurance companies are concerned, the longer this situation lives, the longer the income from mortgages is taxes, the better interest rates we can get. There is no question about that. It is to the advantage of the life insurance companies and the savings banks, therefore, that you leave the thing alone. But the life insurance companies, and our company particularly, feel that we are trustees for the policyholders who own our assets, and that they, mostly working people, through their inability to find proper homes or by being crowded in under unwholesome or unmoral conditions, are the ones we are concerned about particularly.

We are not asking this exemption to avoid paying anything. Personally, I do not believe in exemptions. I personally would not come here to-day and ask you gentlemen to consider exemption on mortgage loans if I didn't know that there is an emergency existing that would warrant the United States Government in exercising its police power to relieve this situation. If it goes on as it is, with no houses being built—and I do not mean to say that the income tax on mortgages is the only reason houses are not being built, but it is one of the impelling reasons—and if everything else is cleared away, if the cost and scarcity of material were relieved, if the price of labor and the efficiency of labor were improved, then we would be right up against it harder than we are now for money to build these homes. You can not build homes in this country unless there is money to be loaned on mortgages, and it is, I think, one of the most essential things that can be done.

Mr. WATSON. In New York they live in apartments, mostly, do they not?

Mr. STABLER. Yes, sir; they do.

Mr. WATSON. They are building more homes now?

Mr. STABLER. Yes, sir.

Mr. WATSON. Where are they located?

Mr. STABLER. Most of the single-family homes are located in Brooklyn, in Queens, and in the Bronx, Queens being on Long Island, the industrial center.

Mr. WATSON. Are they willing to go that distance, back and forth, the advantage of a home?

Mr. STABLER. Yes, sir. Long Island City, in the Borough of Queens, has become a very great manufacturing center, and thousands of people from Manhattan work there and go back to Manhattan every night to find a place to live. There have been plans filed and permits issued this year for 11,719 single and two-family dwellings. I imagine these plans are more than have ever been filed in the past four years, because there is a desire to encourage the owning of single homes by people of small means.

I want to speak just a moment, sir, in regard to the limit—the $40,000 and $50,000 limit—as provided in these bills. We have a great many loans. Nearly half of our mortgage investments are made on apartment houses, flats, and tenements. Last year we made a great many loans on apartment houses in other cities and in New York City. These loans, almost without exception, average above $50,000. These are the homes of the working people. We loan on

the cheaper class of apartment houses in order that the funds we do invest may go just as far as possible to relieve the situation.

Mr. WATSON. Do I understand your average loan is $2,000?

Mr. STABLER. No, sir; a great deal more than that. I mean to say, Mr. Chairman, that the loans we make on apartment houses, because of the size and cost of the buildings, average more than $50,000. They are the cheaper apartment houses in New York, running under $200,000.

Mr. WATSON. I mean what is the average of your mortgage loans? Of course, you have loaned millions of dollars, but what is the average mortgage loan?

Mr. STABLER. I should say, excluding the single-family dwellings, and so on, that we have lately gone into, our mortgages would average $250,000, because we make them in large sums.

Mr. WATSON. Take the small houses, what are they costing now, including the land?

Mr. STABLER. The small houses—about $8,500 to $11,000 or $12,000.

Mr. WATSON. They are the 6-room houses?

Mr. STABLER. Some six, some seven and eight.

Mr. WATSON. They are larger than the Philadelphia houses.

Mr. STABLER. Yes, sir; wider and deeper than the Philadelphia houses, and in some cases they are either detached or semidetached.

Mr. WATSON. What would your company be willing to loan on a house costing $12,000?

Mr. STABLER. One-half the amount.

Mr. WATSON. For how long a period would the loan be made?

Mr. STABLER. Fifteen years, with 3 per cent semiannual installments on account of the principal, with 6 per cent interest. This is as near as we can get to the building and loan association payments, and we believe that it accomplishes two things. I might say that we will take the money without penalty after three years, on the interest date, so that it accomplishes two or three things, in our opinion. First, the man is not disturbed or worried about his mortgage having to be renewed every few years. He knows that if he keeps his part of the contract that the mortgage is there for 15 years. If he pays the installments as called for in the mortgage he has at the end only 10 per cent left.

Mr. WATSON. What per cent of the mortgages are you obliged to foreclose?

Mr. STABLER. A very small percentage of them.

Mr. WATSON. Will he have the house paid for at the end of 15 years?

Mr. STABLER. Yes, sir; all but 10 per cent. If he kept up for 15 years he would have only 10 per cent left. He can pay all the installments after 3 years, or he can pay it all in 15 years. This plan forces them to save money, and it is the plan applied by our company not only to small houses, but to everything that we loan money on.

Mr. WATSON. How much is the ground worth on Long Island?

Mr. STABLER. I know of one case where the land is worth, taking a lot 24 by 100 feet, about $800. In another case, 20 by 100 feet, it was worth $1,500; and in another case it was worth about $2,500. The prices vary according to the location, the convenience of transportation, and the nearness to the heart of the whole thing, and that is the Borough of Manhattan.

Gentlemen, I do not want to burden you any more, but I have been interested in this subject purely from what I considered was the real need of the people of this country for more than two years, and I have been talking it in season and out of season. I have testified before Senator Calder's committee, and his reports you can get, of course. I do believe that if the gentlemen of Congress knew the situation as I have heard it, about the conditions that exist in this country, you would pass such a bill unanimously. I do not think a possible loss of income to the Government in this connection should be considered; it must be made up in other ways. As I said before, the small investor is not particularly hurt, and many of them will continue their investments, but the large estates, the large investors, who hold hundreds of millions of dollars in mortgage loans, are taking that money and using it for other forms of investment. I thank you.

Mr. WATSON. Thank you very much. The next gentleman to come before the committee is Mr. Edward P. Doyle, of New York.

STATEMENT OF MR. EDWARD P. DOYLE, DIRECTOR OF INFORMATION AND RESEARCH, REAL ESTATE BOARD OF NEW YORK, AND SECRETARY OF THE MAYOR'S HOUSING CONFERENCE COMMITTEE, NEW YORK.

Mr. Chairman and gentlemen of the committee, this is really more of a general welfare measure, in our opinion, than a revenue measure; that is to say, while it comes before the Committee on Ways and Means, it bears directly on the general welfare of the community. In New York City we have 1,050,000 families. We have only 982,000 apartments. Since 1914 there have been only 44,000 apartments built in the city of New York, although the normal increase in population demands 28,000 more. In many instances there are three families living in an apartment. There have been demolished 516 apartments. So that you can readily see, gentlemen, that there is absolutely nothing being done to house the constantly increasing population of the city of New York, which is just now increasing beyond all proportions on account of the abnormal immigration. This situation is indeed considered a great emergency in New York. As secretary of the mayor's housing conference committee I have been brought in contact with various housing committees of other cities, and from consultation with them I find that this situation exists in practically every city in the country. It is so serious in our city that the legislature at the special session called by Gov. Smith recently passed bills which have the effect of practically taking away the constitutional guaranties of the minority by practically confiscating their property rights.

In a case the other day, by a vote of three to two, of very able judges, the court while admitting that it was confiscating the real property rights of the minority, said that the emergency was so great that almost anything the legislature in its wisdom might see fit to pass as a remedy ought to be approved by the courts. Next Tuesday the board of aldermen of the city of New York will pass another ordinance which, in my opinion, will be practically confiscating individual rights by exempting new buildings from taxation on the same ground, namely, that there exists a great emergency, and that the constitutional rights of the minority which have been guaranteed to us ought to be held in abeyance pending this emergency in the housing situation of the great cities of the country. Now, you gentlemen, representing various districts, know from your experience what a vital bearing this situation also has in the matter of marketing the products of the farms. The people of the urban communities are the largest users of farm products, and it is out of the question that we can have contented and prosperous urban communities under the present conditions. In New York city the condition is simply horrible. It is so in many other cities, and there is surely going to be a sad condition of affairs unless something is done to help the building of homes. This situation affects likewise the commuting class, those living in the outlying districts, who come into the city for their daily work. We have there 2,700 old, worn-out tenements that are vacant, which the very poorer people might get into if they are willing to live without a bath or toilet, or a toilet out in the yard, and all that sort of thing. And there are a number of vacant very expensive apartments, but there are no apartments for the clerks or the men getting a thousand, eleven, twelve, or fifteen hundred dollars a year. They are finding no places at all. Nearly all the newspapers have made a canvas to see if apartments could be gotten for $65 a month, or apartments for men who could pay $50, or apartments for men who could pay $40. These figures in many instances amount to half the income of the men seeking apartments, and yet no vacancies can be found at all.

Mr. WATSON. What is the situation in the Bowery?

Mr. DOYLE. Why, the Bowery is practically wiped out. All the lower part of Manhattan, along the Bowery, is in our business section; but to the east of the Bowery most of those old worn-out tenements are vacant and are hardly fit to live in. They are taken mostly by the poorest class of immigrants when they first come to New York. If you go over there into the foreign element section, where the Jewish quarters and the Italian quarters are, you will find in many instances a half dozen families living in one apartment.

Mr. WATSON. There is a section in the Bowery thickly populated. Passing through some time ago in an automobile it was almost impossible to proceed because of the many children; this was near the bridge.

Mr. DOYLE. The most thickly populated section in the world is right there where you mentioned. It is not directly in the Bowery, it is off the Bowery just a short distance.

Mr. WATSON. No, it was not in the Bowery, but within a short distance of the bridge.

Mr. DOYLE. There is one police precinct there, which covers 15 or 20 blocks each way, with 125,000 people in it. It is probably the most thickly populated place in the world. In New York City we are building single-family houses, and that is what we want, because in many instances the men work on them themselves and they can borrow money from the building and loan associations; but we must also have a large number of what we call "multi-family houses," houses with twenty to a hundred apartments. Many people prefer to live that way, because they can not afford to hire servants, and if

a woman with children wants to leave the house the woman upstairs will care for the children while she is away. And there also exists in an apartment like that, as you know, the greatest charity in all the world. If Mrs. Brown's husband is out of work, her neighbor, Mrs. Smith, will help her out until Mr. Brown gets work again; and it is true that that class of people prefer to live in an apartment house until they get more money. Of course, when they get in better shape financially they eventually get their own homes. What we need in New York City now are large sums of money available for building homes. As a general thing that money came formerly from large estates. Men would leave large sums of money under their wills and direct that it should be loaned on first mortgages or bonds in New York City or Brooklyn. Sometimes one estate would have as high as $250,000 set aside for the building of these apartment houses and then sell them, and that money has now just about entirely gone out of the building market because of the soaring taxes, and there is barely anything left of the income from mortgage loans after the taxes are paid. I think there is one thing that the committee hasen't thought about. For instance, in our city there is now paid on the full value three twenty, a tax of three twenty——

Mr. Oldfield (interposing). What do you mean by "three twenty," Mr. Doyle?

Mr. Doyle. Three dollars and twenty cents per hundred. Now the rate will be $2.85, and then there is the sum of $27,000,000 extra tax that must be paid to take care of the board of education. Under the constitutional limit for New York City you can only levy a tax of 2 per cent on real property, exclusive of debt service. Now, this year they have that tax of $2.85, and then they have that special levy of $27,000,000 to take care of the board of education. Then in addition to that the owner pays a tax on his net income. We think that the Members of Congress should look at this matter not as a revenue proposition at all, but rather as something that is necessary to meet a temporary emergency, just as our laws up there were passed to meet a temporary emergency within the borders of our own State. Of course, these laws will only run for a certain number of years, for the purpose of preventing a serious situation that may arise if these men get out of work and can not pay their rent. They can do nothing, they can not get a house at a reasonable price; in fact, no houses, because there aren't any to be had. And there will not be any more houses of the kind or type they want unless it is made possible for us to get the money. In New York City we look for a great fall in the price of labor and materials in the spring, so that we will be able to build if we have the money. But we can only judge the future by the past. A similar situation existed in 1872, when labor was $8 a day of eight hours for mechanics; when bricks were $24 a thousand, and lumber $60 a thousand feet; and in 1874 conditions were exactly similar to what they are now. The signs are exactly the same. The best mechanics then received $2 a day for 10 hours, and bricks were down to $8, while lumber was down to $16 again. They are loaded up in New York City with all kinds of material, every dealer is loaded up, and it seems to us that there must be a tremendous slump in prices. There is beginning to be great unemployment. While wages and materials may never again get back to prewar levels, if we can only get the money needed we

think that both materials and labor will be in condition for us to build satisfactorily next spring.

Mr. Oldfield. We have had some men before us this week. In the course of the hearings one man stated that a car load of sheep and lambs had been sent to market in Chicago at the expense of transportation and all the other expenses necessary to get them to market. It was stated that when they were finally disposed of he got 33 cents per lamb. If you go out here to a hotel or restaurant and buy a lamb chop it will cost you more than the lamb would cost in Chicago. While prices are said to have come down at some stage of the transaction, after all I do not see that it is any cheaper living in the city here, and I suppose the same is true in New York City. I do not see that there is much relief—as to meats and butter.

Mr. Doyle. All those things are like a shell. The wholesale prices are down. Pork is down to about prewar prices. Wheat is down. They are shipping wheat in here now from Canada. I was talking with a large flour manufacturer two or three days ago and he told me that he was getting all his wheat from Canada. And they are bringing live mutton in here from New Zealand at very low prices. Coffee is only 6 cents a pound from Santos. But the retailer is keeping his prices up. The retailer's price has got to come down, too. I saw in the market in New York City butter at 72 cents a pound, and in another place there in the city butter was selling for 55 cents a pound. Now, as to wages, we can not maintain one standard of wages for the worker in New York City and another standard for the man that works on the farm. That has been our trouble in New York. I thank you, gentlemen.

STATEMENT OF MR. BIRCH HELMS, REPRESENTING THE ADVISORY COUNCIL OF REAL ESTATE INTERESTS, NEW YORK CITY.

Mr. Chairman and Gentlemen of the Committee: The advisory council of the real estate interests of New York City has asked me to come here and register their objection if any favorable action might be taken on this bill with regard to the 5-year limit. They had a conference this morning with Senator Calder, of New York, and they just called me up. Senator Calder was with me. Senator Calder said that it was the result of his experience and observation, and the experience of this council also is that if this 5-year limit were put into the bill it would practically nullify the effect of it.

Mr. Oldfield. There is no 5-year provision in this bill.

Mr. Helms. There is in one of them; and they just wish to register their objection to that provision. If this is to be considered, they would like to have a rehearing, and I think Senator Calder would like to present some points on it.

Mr. Watson. If there is nothing further the committee will adjourn.

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